

2003

# The institutional determinants of property regime change in new democracies: the Russian Federation, Hungary, and Czechoslovakia

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THE INSTITUTIONAL DETERMINANTS OF PROPERTY REGIME CHANGE  
IN NEW DEMOCRACIES: THE RUSSIAN FEDERATION,  
HUNGARY, AND CZECHOSLOVAKIA

A Dissertation

Submitted to the Graduate Faculty of the  
Louisiana State University and  
Agricultural and Mechanical College  
in partial fulfillment of the  
requirements for the degree of  
Doctor of Philosophy

in  
The Department of Political Science

by

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## **Acknowledgments**

First, I want to thank the Department of Political Science for its strong support for my research. In particular, I want to express my deep appreciation to Dr. William A. Clark for his relentless direction, encouragement, and expertise in comparative postcommunist institutions. Dr. Clark's leadership in this dissertation made it possible. Equally important was the ongoing inspiration and brilliant insights of Dr. Karen Ruth Adams, who challenged me to overcome my initial limitations and strive for theoretical and empirical goals unforeseen at the beginning of the project. I also want to thank Dr. Frederick Weil for his scholarly leadership throughout my study; especially for his encouragement to engage in multi-level theorizing, and his intellectual insights into the intricacies of structure and culture regarding the role of political parties. Thanks to Dr. Eugene Wittkopf for his staunch support and constant reminders of the international sources of policy reform.

A special thanks goes to Dr. Thomas Owen for his unfailing enthusiasm and support for my project. Dr. Owen's expertise in Russian economic history and political economy expanded the research frontiers of my study of the Russian Federation. I also want to thank Dr. Mark Gasiorowski, who first shaped my thinking, on how structure and agency may not only guide our intellectual pursuits, but how these interactions may shape our perceptions of multiple political realities.

## Table of Contents

<b>ACKNOWLEDGMENTS .....</b>	<b>ii</b>
<b>ABSTRACT.....</b>	<b>vi</b>
<b>INTRODUCTION. THE INSTITUTIONAL DETERMINANTS OF PRIVATIZATION IN NEW DEMOCRACIES.....</b>	<b>1</b>
I. The New Institutionalism: Definitional Issues and Institutional Effects .....	4
II. The New Institutional Literature and Postcommunist Transformation .....	7
A. Efficiency Theories of Institutions .....	9
B. Distributive Theories of Constitutional Powers .....	11
III. Case Selection: The Russian Federation, Hungary and Czechoslovakia .....	13
IV. Outline of The Chapters .....	17
<b>CHAPTER ONE. INSTITUTIONAL AND PARTISAN THEORIES OF PROPERTY REGIME CHANGE .....</b>	<b>20</b>
I. Privatization: The Degree and Kind of Change .....	24
A. The Degree of Property Change .....	25
B. Property Ownership Regimes --The Kind of Change .....	27
II. The Institutional Determinants of Property Regime Change .....	28
A. Majoritarian and Consensual Constitutions .....	29
B. Comparative Constitutional Powers Theory .....	31
C. Positive Theories of Institutions .....	33
D. The Origin and Survival Powers -- Fixed Terms and Mode of Elections .....	35
E. The Distribution of Legislative Powers .....	41
F. The Joint Effects of the Legislative and Non-legislative Powers .....	45
G. Bicameralism, Federalism, and Judicial Review .....	50
III. The Unity of Purpose and Partisan Theories of Policy Change .....	53
A. The Partisan Theory and Model .....	58
B. The Institutional Mechanism and Its Determinants .....	60
C. Electoral Rules and the Demand for Inter-party Cooperation .....	62
D. Party System Characteristics and Coalition Potential .....	64
E. Party System Characteristics and Parliamentary Settings.....	65
F. Coalition Types.....	71
IV. Chapter Conclusion: Some Predictions .....	75
A Distribution of Powers .....	76
B. Predictions: Unity of Purpose .....	79
<b>CHAPTER TWO. RUSSIAN PATTERNS OF PRIVATIZATION: THE DEGREE AND KIND OF PROPERTY TRANSFORMATION .....</b>	<b>83</b>
I. Creating a Legal Framework for Privatization .....	87
A. The Legal Framework of Russian Privatization .....	89
B. Summary: Governance and Law Making .....	104
II. The Degree of Change: De-étatization.....	106
A. Property Divestment .....	107
B. The Scope of Industrial Sectors .....	112
C. Policy Sustainability and Coherence .....	113

III. The Kind of Change and Ownership Patterns .....	115
A. Patterns of Ownership .....	116
B. Income Inequality in Russia (1992-1998) .....	119
C. Privatization and Income Inequality .....	121
D. Bureaucratic Capitalism in the Russian Federation.....	128
E. Summary: The Degree and Kind of Property Change.....	132
<b>CHAPTER THREE. INSTITUTIONAL DETERMINANTS OF RUSSIAN PRIVATIZATION:</b>	
<b>THE DISTRIBUTION OF CONSTITUTIONAL POWERS .....</b>	<b>135</b>
I. Russian Presidentialism and the Separation of Powers .....	137
A. Russia and The Distribution of Powers Continuum .....	139
B. The Powers Distribution Thesis .....	140
C. The Origin and Survival Powers: Russia's Multi-actor Decision Structure .....	141
II. Multicameralism -- Bicameralism, The Constitutional Court, and Federalism .....	148
A. Bicameralism and Privatization Policy .....	149
B. The Constitutional Court .....	151
C. Federalism: Privatization Legislation and Programmatic Implementation .....	153
III. The Distribution of Non-legislative and Legislative Powers .....	159
A. The Non-legislative Powers: Appointment and Dismissal .....	160
B. The Distribution of Legislative Powers .....	163
IV. Institutional Incentives and the Strategic Premises of Law Making .....	172
A. The President: Strong Legislative Powers and Weak Non-Legislative Power .....	175
B. The Parliament: Strong Non-Legislative Powers and Reactive Powers .....	181
C. Institutional Incentives and Strategic Choice: The 1992 State Privatization Act ....	185
D. Conclusion and Summary Findings .....	188
<b>CHAPTER FOUR. THE RUSSIAN FEDERATION, PRIVATIZATION, AND THE</b>	
<b>UNITY OF PURPOSE.....</b>	<b>196</b>
I. Russia's Electoral Rules and Party System Characteristics .....	199
A. Party System Fragmentation .....	199
B. Factional Stability .....	202
C. Polarization.....	204
D. Parliamentary Policy Distance and Party Competition .....	206
E. Summary .....	209
II. Intra-Country Cases - 1990 to 1993.....	212
A. Parliamentary Passage of the Neoliberal Provision Program.....	213
B. The First Reading of the 1992 State Program.....	214
C. The Sixth Congress of People's Deputies: Realignment and Multipolarity .....	224
D. The Second Reading: The Passage of the State 1992 Program .....	235
E. Conservative Realignment: Summer through December 1992 .....	243
F. Conclusion and Summary Findings .....	252

<b>CHAPTER FIVE. COMPARATIVE CONSTITUTIONS AND PRIVATIZATION: HUNGARY, CZECHOSLOVAKIA, AND RUSSIA .....</b>	<b>258</b>
I. Czechoslovakia and Hungary: The Degree and Kind of Property Change .....	261
A. Czechoslovakia's Mass Voucher Privatization: Divestment and Stability .....	262
B. Hungary's Asset Sales: Divestment and Stability .....	264
C. Czechoslovakia and Hungary: The Kind of Change .....	267
II. The Constitutional Distribution of Powers: Hungary and Czechoslovakia .....	273
A. Hungary and Czechoslovakia: The Non-Legislative Powers .....	273
B. Hungary and Czechoslovakia: The Distribution of the Legislative Powers .....	276
C. Summary: Distribution of Legislative Powers.....	283
D. The Distribution of State Power and Multicameral Institutions.....	284
E. The Distribution of Powers Continuum .....	287
III. Constitutional Powers: Executive Dominance -- Hungary and Czechoslovakia .....	289
A. Hungary: The Pattern of Privatization Law Making .....	289
B. Czechoslovakia: The Pattern of Privatization Law Making .....	290
C. Executive Power and Policy Change: The Bivariate Relationship .....	292
D. Executive Power: Institutional Constraints and Incentives .....	299
E. Hungary: The Single-Actor Asymmetrical Pattern Executive and Legislative Relations .....	303
F. Czechoslovakia: Symmetrical Two-Actor Distribution .....	312
IV. Unity of Purpose: Partisan - Coalition Explanations of Privatization.....	321
A. Czechoslovakia's Electoral System: The Demand and Supply for Inter-party Cooperation.....	324
B. Hungary's Electoral System: The Demand and Supply for Inter-party Cooperation .....	328
C. Majoritarian Electoral Rules and Party-System Characteristics.....	329
D. Proportional Electoral Rules and Party-System Characteristics.....	334
E. Czechoslovakia: Coalition Potential and Legislative Outcomes.....	335
F. Hungary: Coalition Potential and Legislative Outcomes.....	343
<b>CHAPTER SIX . DISSERTATION CONCLUSION AND FINDINGS .....</b>	<b>349</b>
I. Introduction .....	349
II. Constitutions and Electoral Rules: Institutional Effects on Policy Making.....	352
A. Distributive Theories of Institutions and Findings .....	357
B. The Distribution of Power: The Institution Context for Executive Action.....	361
C. Unity of Purpose Findings: Russia, Hungary, and Czechoslovakia.....	366
III. Future Research Directions .....	368
<b>BIBLIOGRAPHY .....</b>	<b>373</b>
<b>APPENDIX A: DISSERTATION METHODS .....</b>	<b>398</b>
I. Constitutional Distribution of Powers Index .....	398
II. Unity of Purpose Index and Methodology .....	403
<b>APPENDIX B: CODING MATERIALS .....</b>	<b>415</b>
<b>VITA .....</b>	<b>433</b>

## **Abstract**

Is there relationship between the design of democratic institutions and the achievement of optimal collective decisions? Optimum decision making is defined as achieving goals important to the transition such as deep and equitable property reforms. Democratic institutions refer to first-order institutions of governance and the electoral rules for choosing leaders. Overseeing both are the written or “parchment” constitutions.

Constitutions are designed to distribute power among actors, generate efficiency in governance, and govern the interactions of actors. My findings showed that constitutional designs intentionally and sometimes with unanticipated consequences can result in highly cooperative, competitive, or conflictual struggles by political actors over high-stakes distributive issues such as privatization.

I argued that as the institutional setting varied, chief executives were more or less likely to successfully conduct radical and equitable property reforms. Using distributive theories of institutions, the testing of the simpler, bivariate model of executive power proved to be indeterminate, except in isolated instances of decision making. Various configurations of executive power assumed importance in a more complex model that incorporated additional variables -- the power distribution governing executive/legislative relations and multicameral institutions.

In the Russian case, a powerful executive in the context of the asymmetric distribution of legislative and non-legislative powers between the branches, promoted property reform but also intense conflict between the branches. In Hungary, a powerful executive by virtue of a monopoly over the constitutional powers could act freely and decisively, but only insofar as privatization policies were deemed effective. Further, executive power was limited by the powerful Hungarian

Constitutional Court. In the Czechoslovak case, the even distribution of powers appeared to most optimize collective decision making. The power and efficiency properties of its moderately consensual institutions intertwined to create institutional incentives that were more likely to produce low-cost and sustainable privatization policies.

Rather than serving as a rival account, the unity of purpose argument complimented and extended the power distribution argument. Efficiency effects can arise from the design of electoral rules and subsequent party system formation. The findings supported this interpretation and the role of partisan parliamentary conditions in the formation of winning legislative coalitions in parliament.



## **Introduction**

### **The Institutional Determinants of Privatization in New Democracies**

The historical relationship between political and economic change is central to the study of early industrialization, economic growth and development, third wave democratization, and now postcommunist transitions to democracy and capitalism. Scholarly research, old and new, asks in what ways does politics shape economic transformation. In turn, to what extent does the process of economic change alter domestic configurations of power. Scholarship for decades has contended with these deceptively simple questions.

Prior to the third wave of democratization, classic inquiries rooted in the experiences of the early twentieth century shaped the contours of the debate. Max Weber, for instance, writing about Russia's short-lived experiments with liberalism during the early twentieth century was pessimistic about the prospects for the emergence of democracy in transition countries. Weber premised his conclusions on his lifelong study of cultural conditions favorable to a working synergy between capitalism and democracy.<sup>1</sup>

Weber's writings on Russia, however, foreshadowed future theoretical debates on transitions to democracy and capitalism that he could not have envisioned during his lifetime. World events of the twentieth century delegitimated the ideological forces opposed to the liberal democratic vision of society and politics: conservative authoritarianism (including its radical right variant fascism) and Marxism-Leninism. Weber also could not have envisioned the worldwide

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<sup>1</sup> Max Weber, *Economy and Society* Guether Roth and Claus Wittich eds. (Berkeley: University of California Press, 1978) p. 869. See also Richard Pipes, "Max Weber and Russia" *World Politics* vol. 7 no.3 April 1955 pp. 371-40 for Weber's conceptualization of Russian in 1905 as a transitional country that held the hope for liberalism and freedom, but lacked the bases of political support.

diffusion of liberal economic and political values. The third wave and postcommunist transitions of the late twentieth century has brought back simultaneous transitions aimed at a successful symbiosis of democratic development and capitalism as a central issue of scholarly study.<sup>2</sup>

The post-communist transitions represent an unusual historical juncture to learn more about these causal relationships, but under new historical and global conditions. In this dissertation, I seek to understand the dynamics of post-communist political and economic change through applying an institutional perspective to study privatization policy formation and its outcomes, the transformation of ownership regimes.

This dissertation investigates the mass privatization phase in the Russia Federation, and to a lesser extent compare its experience with two countries considered the most successful in postcommunist Europe -- Czechoslovakia and Hungary. The study covers the time frame between 1989 through 1994. Therefore, the study begins when under new democratic rules each country engaged in policy formation and enacted the laws that would form the legal bases for privatization and ends with the completion of the first phase of property transformation.

This study contends that the democratic transitions in the postcommunist world entailed three strategic decisions --. the constitutional design of democratic institutions of governance, an electoral system to permit the representation of interests, and the transformation of state property

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<sup>2</sup> See Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (New York, Cambridge University Press, 1992); Nancy Bermeo with Jose Garcia-Duran, "Spain: Dual Transition Implemented by Two Parties," in Stephan Haggard and Stephen Webb, *Voting for Reform* (Washington D.C.: World Bank, 1994); Stephan Haggard and Robert Kaufman, *The Political-Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995); Juan Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe* (Baltimore and London: Johns Hopkins Press, 1996); Barry Ames, *Political Survival: Politicians and Public Policy in Latin America* (Berkeley: University of California Press, 1987); Robert Bates and Ann Krueger, *Political and Economic Interactions in Economic Policy Reform* (Cambridge, England: Blackwell, 1993); Barbara Geddes, *Politician's Dilemma: Building State Capacity in Latin America* (Berkeley, Los Angeles and London: University of California Press, 1994); Jon Elster, Claus Offe and Ulrich Preuss, *Institutional Design in Post-Communist Societies; Rebuilding the Ship at Sea* (Cambridge: Cambridge University Press, 1998).

into private forms of ownership. The first decision, the design of constitutional rules, determined the relationship between state institutions and the capacity for effective governance. The second, the choice of electoral system, determined the relations between state and society; most important was the public accountability of the government. In addition, the institutional structuring of societal interests contributed to the ability of elites to govern. The third, the privatization of property, touches upon the distribution of wealth in the society which also affected the distribution of social power and political influence; and upon the legitimacy of new democracies.

Although, there are numerous theories of dual transitions from diverse literatures,<sup>3</sup> this study argues that the first two choices of constitutional and electoral rules shaped the third, the creation of new property regimes. In addressing the importance of new democratic institutions, this study is especially interested in the constitutional provisions that result in highly centralized, power-sharing, or dispersed power structures. Using Arend Lijphart's (1984) definitions, these patterns of power distribution correspond to his categories of majoritarian and consensus democracies.<sup>4</sup> However, the theoretical interest goes beyond this outer frame of political action to investigate.

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<sup>3</sup> Since the introduction of political reforms in Asia, Latin America, and then postcommunist Europe, dual transitions have been the staple of the political economy literature. These theories use a variety of methods and formats including rational choice and principle-agent approaches to compare the political challenges entailed in introducing and implementing difficult economic reforms. A dominant theme in formal political economy is the way in which proposed changes create material winners and losers thus, the research agenda has focused on various societal actors with the socioeconomic power to shape the transition. See Joan Nelson, John Waterbury, and Stephan Haggard, eds. *Fragile Coalitions, The Politics of Economic Adjustment*. (New Brunswick: Transaction Books, 1989); For an updated version of these theories see Joel Hellman, "Winners Take All: The Politics of Partial Transformation in Postcommunist Transitions" *World Politics*, vol. 50 no. 2, 1998 pp. 203-234 for the most recent version of these theories. For stakeholder theories of property transformation, see also Andrei Shleifer and Daniel Treisman *Without a Map: Political Tactics and Economic Reform in Russia* (Cambridge, MA: MIT Press, 2000); Maxim Boycko, Andrei Shleifer, and Robert Vishny *Privatizing Russia* (Cambridge, The MIT Press, 1995); Roman Frydman, Roman., Andrzej Rapaczynski, and John Earle, *The Privatization Process in Central Europe* (Budapest: Central European Press, 1993).

<sup>4</sup> Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Democracies* (New Haven and London, Yale University Press, 1984).

the role of constitutional provisions that constitute executive power,<sup>5</sup> and how these rules structure the relations between chief executives and the other branches of government, above all the legislature.

Three questions guide this dissertation as a means to explore the linkage between political institutions and economic transformation. First, what are the effects of political institutions on individual and collective decision-making processes? Second, is there a relationship between the design of democratic institutions and the achievement of optimal collective decisions? Third, did certain sets of democratic institutions contribute to radical and equitable privatization policies? To begin to address these questions, the following section draws some insights from the new institutionalist theoretical literature regarding the way we define institutions and why institutions matter.

## **I. The New Institutionalism: Definitional Issues and Institutional Effects**

The institutionalist literature distinguishes research seeking to explain the origins and design of institutions from research on the effects of institutional format on political behavior and outcomes. For a time, the research was weighted toward understanding institutional effects. Then the research agenda shifted toward accounts designed to explain the choice of institutions. Ongoing institutional development in western democracies and the new institutions in transition democracies have provided fertile ground for this research agenda. Increasingly, analytical gains made in the research on choice and effects now intertwine to bring new insights into the relationship between political institutions, actor-behavior, and policy reform.

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<sup>5</sup> For the literature on comparative constitutional analysis of the executive's powers, See John M. Carey and Matthew Soberg Shugart *Presidents and Assemblies: Constitutional Design and Electoral Dynamics* (Cambridge: Cambridge University Press, 1992); Gary W. Cox and Matthew D. McCubbins "The Institutional Determinants of Economic Policy" in Stephan Haggard and Matthew D. McCubbins eds. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000) pp. 21-63; James, James McGregor, "Constitutional Factors in Politics in Central and Eastern Europe," *Communist and Post-communist Studies* vol. 29 no. 2, 1996 pp. 147-166.

To highlight recent innovations made in the study of political institutions, this section proposes a definition of institutions, and then proceeds to use it as a basis for theorizing institutional effects. Institutions are commonly described “as rules that govern social interactions, constraining the behavior of and the options open to actors. Political institutions establish guidelines for deliberation, the aggregation of preferences into collective decisions, and the implementation of those decisions.”<sup>6</sup>

New institutionalists have argued that institutions have important causal effects on the policy making process.<sup>7</sup> First, institutions matter because they can be a source of both systemic stability and systemic change.<sup>8</sup> Institutions can create the conditions for a relatively stable hierarchy of authority. Second, by distributing power resources unequally and by creating constitutional, legal and behavioral incentives, and ensuring the stability of the distribution of power, institutions may affect policy decision making.<sup>9</sup> In this manner institutions encourage and institutionalize a particular pattern of power relations. In this respect, institutionalism helps to

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<sup>6</sup> John M. Carey, “Parchment, Equilibria, and Institutions” *Comparative Political Studies* vol.33 no. 6/7 (August-September 2000) pp. 735-761.

<sup>7</sup> For a general institutional perspectives on post-communist Europe and the CIS see, Jon Elster, Claus Offe and Ulrich K. Preuss, *Institutional Design in Post-Communist Societies; Rebuilding the Ship at Sea*, (Cambridge: Cambridge University Press, 1998). For political party formation in postcommunist societies see Karen Daiwasha and Bruce Parrott, *The Consolidation of Democracy in East-Central Europe*, (Cambridge, Cambridge University Press, 1996; Herbert Kitschelt, Zdenka Mansfeldova, Radoslaw Markowski and Gabor Toka *Post-Communist Party Systems: Competition, Representation and Inter-party Cooperation* (Cambridge: Cambridge University Press, 1999; Geoffrey Evans and Stephen Whitefield, Identifying the Bases of Party Competition in Eastern Europe,” *British Journal of Political Science* vol 23, no. 4 pp. 521-548. For the debate on presidentialism and parliamentism see John M. Carey and Matthew Shugart, eds. *Executive Decree Authority* (New York: Cambridge University Press, 1998); Ray Taras, *Post-Communist Presidents* (Cambridge, Cambridge University Press, 1997; Thomas Baylis. “Presidents versus Prime Ministers, Shaping Executive Authority in Eastern Europe,” *World Politics*, vol. 48 no. 3 1996 pp. 297-323.

<sup>8</sup> See such seminal works on why institutions may constrain actors choices and end cycling of preferences including Arrow, Kenneth, *Social Choice and Individual Values* (New York: Wiley, 1951); Kenneth A. Shepsle “Institutional Arrangements and Equilibrium in Multidimensional Voting Models” *American Journal of Political Science* 1957 vol. 23 pp. 27-60; and Anthony Downs, *An Economic Theory of Democracy*. (New York: Harper and Row, 1957).

<sup>9</sup> Alexander A. Sergounin, “A Safeguard Against Anarchy: Executive-Legislative Liaison Mechanism in the Democratic System, Some Lessons for Russian Foreign Policy Makers,” *Final Report* Nizhny Novgorod Linguistic University, Russia June 25, 1999. pp. 5-6.

explain why certain disparities in the distribution of executive and legislative powers may occur and endure. It helps to explain why a particular model of politics, or a particular system of government, may predominate in a particular country over a considerable period of time.

Although institutions can result in a predominate pattern of executive-legislative politics, institutions are not static and can vary. Institutions produce regularities in politics. Nonetheless some institutional configurations may be systematically biased in favor of change -- a feature that is called 'institutional dynamism.'<sup>10</sup> Power for executives are one such source. As Elgie (1997) notes, along with other sources of institutional dynamism, the configuration of executive and legislative relations also creates an institutional potential for change.<sup>11</sup>

The institutionalist literature has introduced a number of important approaches to defining institutions and theorizing their effects. However, in the next section I will focus on two important but distinct sets of approaches -- efficiency and powers distribution theories. Both research agendas have yielded important insights into the relationship between institutions, decision-making, and policies designed to achieve the transformation of society and economy. Both approaches come under the rubric of positive theories of institutions that have for several decades have been used to understand legislative and executive politics in the United States Congress.

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<sup>10</sup>See Sven Steinmo, Kathleen Thelen, and Frank Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992); See also Peter A. Hall, "The Movement from Keynesianism to Monetarism: Institutional Analysis and British Economic Policy in the 1970s," in Sven Steinmo, Kathleen Thelen, and Frank Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992) pp. 101-123.

<sup>11</sup>See R. Elgie, "Models of Executive Politics: A Framework for the Study of Executive Power Relations in Parliamentary and Semi-presidential Regimes" *Journal of Political Studies* vol. XLV no.2 (1997) p. 229.

## II. The New Institutional Literature and Postcommunist Transformation

When the postcommunist states began their experiments with institution-building, the national leadership looked to diverse designs of constitutions worldwide for a configuration of institutions that would enable them to conduct economic transformation.<sup>12</sup> Although these countries reflected vastly different historical, geographical, and demographic settings, the new elites had similar goals; the new leaders had to conduct policy making to create the legal foundation necessary to proceed with political and economic change. In addition, the new elites that assumed office often could claim victory in the struggle over the kind of constitutions under which they would govern. In some countries more than others, it also can be assumed that the elites believed that their country had chosen new institutional arrangements that might offer optimum solutions to the collective decision processes that were necessary to accomplish their policy agenda.

For instance, in late 1991, the new Russian leadership struggled over whether the best solution to Russia's transition problems would be a presidential or parliamentary system.<sup>13</sup> As this dissertation demonstrates, constitutional choices were made regarding agenda-setting, veto powers, and other constitutional provisions. Ultimately, however, the leadership whether President Yeltsin, the minister of privatization agency Anatolii Chubais, or the Chairman of the parliament Rhuslan Khasbulatov had to confront the complexity that results from any set of institutional arrangements. In particular, Yelstin fought for and received greatly expanded constitutional powers that would eventually become the basis for Russia's superpresidency.

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<sup>12</sup>Jon Elster, Claus Offe and Ulrich K. Preuss, *Institutional Design in Post-Communist Societies; Rebuilding the Ship at Sea* (Cambridge:Cambridge University Press, 1998); Raymond Taras, "Separating Power" in Ray Taras ed.. *Postcommunist Presidents* (Cambridge: Cambridge University Press, 1997); Paula, Luong, "After the Breakup: Institutional Design in Transitional States," *Comparative Political Studies* vol. 33, no. 5 (June 2000) pp. 563-592.

<sup>13</sup>These choices also were dictated by goals related to securing their own power and influence in the new political order.

Yelstin's past experience in the Soviet system and his own proclivities for autocratic rule possibly led to him to define the solution to transition challenges in terms of pure power. Only later, the president as did all the political actors learned that centralized power arrangements whether located in the executive or parliament were only partially going to produce their expected outcomes.

The two strands of the new institutionalist literature outlined below explicitly deal with the complexity entailed in the choice and effects of new institutions. The efficiency and powers distribution literatures suggest that institutional solutions to problems such as cooperation between the branches of government, representation, and the ability to legislate policy strategies to redistribute state-owned property are neither as direct nor straightforward as they may seem. Although emphasizing different approaches to understanding institutional effects, both sets of theories derive from positive theory of institutions.

Positive theory began as an approach to understanding the effects of legislative institutions on policy making in the United States and Western Europe.<sup>14</sup> The analytic tools and methods are borrowed from the new institutional economics; increasingly they have been applied to the comparative study of legislatures and executives in the postcommunist countries. The institutionalist approach taken in this study is based on positive theory of institutions -- as successfully applied to the comparative study of postcommunist countries by Kitschelt (1999),

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<sup>14</sup> Keith Krehbiel, *Pivotal Politics. A Theory of U.S. Lawmaking*. (Chicago: University of Chicago Press, 1998); John D. Huber, "The Vote of Confidence in Parliamentary Democracies" *American Political Science Review*, vol 90 no. 2 1996 pp 269-282; Kathleen Bawn "The Logic of Institutional Preferences: The German Electoral Law as a Social Choice Outcome" *American Journal of Political Science*, No 4. pp. 965-989. For a comprehensive review of the literature, see John M. Carey, "Parchment, Equilibria, and Institutions" *Comparative Political Studies* vol. 33 no. 6/7 August-September 2000 pp. 735-761.



Kitschelt et al, (1998), and Remington (1999). As noted by Remington, the advantage is that “this approach emphasizes the individual’s purpose, calculations, and interactions with others, as well as the process of collective choices.”<sup>15</sup>

### **A. Efficiency Theories of Institutions**

Efficiency theories highlight “the overall welfare of the institution” or “the maximum productive uses of resources.”<sup>16</sup> The constitutional design of political institutions matter since they “represent solutions to overcoming obstacles to cooperation, coordination, and exchange among individuals.”<sup>17</sup> Consequently, certain institutional configurations are more likely to induce positive interactions between the executive and legislative branches as well as foster cooperation among the parties within the legislature.

For instance, Remington and Smith (1999) note that some “institutional arrangements... facilitate payoffs from exchanges across different issue dimensions,” such as the U.S. Congress committee system. Barbara Geddes (1994) has argued that legislators’ electoral goals limit their ability to legislate beneficial policies.<sup>18</sup> Efficiency theories consider electoral goals important. However, these scholars note that institutions can be designed to simultaneously satisfy multiple goals including their electoral and policy interests. For instance, Remington (1997) going back to Mayhew (1963) considers the “degree to which institutional arrangements in Congress spare members zero-sum conflicts since policy positions may be more important than policy outcomes

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<sup>15</sup> Thomas F. Remington and Steven S. Smith, “Theories of Legislative Institutions and the Organization of the Russian Duma.” *American Journal of Political Science* vol. 42 (1997), p. 549.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> See Barbara Geddes *Politician’s Dilemma: Building State Capacity in Latin America* (Berkeley, Los Angeles and London: University of California Press, 1994).

for members' electoral goals.<sup>19</sup> Another strand of this literature, demand theories of institutions, argue that ongoing institutional development in the Congress has also provided such arrangements through committee rules and jurisdictions.

Remington and Smith (1998) have applied the insights rooted in efficiency theory to their research on the origins of Russian legislative institutions.<sup>20</sup> In the Russian Federation, their findings indicate that institutional choices were shaped by members preferences over reelection, policy outcomes, allegiance to party, and other such goals. Since institutional choices are often the product of multiple actor goals, they conclude that the 1993 institutional arrangements for the Russian Duma were motivated by institutional solutions that highlight conflict-resolution considerations as a means to accommodate the multiple imperatives facing legislators.

In his comparative study of privatization in four postcommunist countries, David Stark focuses on the design of executive institutions. Stark (1998, 2001) explicitly calls for institutional designs that produce efficient outcomes. Critical of the powerful, prime ministerial government in Hungary, Stark introduced "the effective executive model."<sup>21</sup> For Stark, dominant executives are driven by the availability of constitutionally granted prerogatives. Instead institutions should be chosen for their characteristics as "enabling constraints." Stark argues that such institutions should induce cooperation by forcing all actors to negotiate bargained outcomes at the beginning of the policy process.

To summarize, efficiency theories view institutional effects as a means of transforming potentially conflictual conditions into cooperative outcomes. As George Tsebelis (1990) notes, policy change becomes possible since the most significant obstacle to changing policy often is

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<sup>19</sup> Thomas F. Remington and Steven S. Smith, "Theories of Legislative Institutions and the Organization of the Russian Duma." *Journal of Political Science* vol. 42 (1998) p. 549

<sup>20</sup> Ibid.

<sup>21</sup> David Stark, "Enabling Constraints: Institutional Sources of Policy Coherence in Post-Socialism," 2000.

that actors with different goals and motives are unlikely to perceive the decision as maximizing their interests or preferences.<sup>22</sup> Using game theory, Tsebelis (1990) argues that institutions resolve such problems as the classic prisoner's problem of collective action by transforming the game from one of defection to one where all can gain from exchange.<sup>23</sup>

## **B. Distributive Theories of Constitutional Powers**

Like property rights theories, constitutional powers approaches focus on the distributive effects of institutions. At the constitutional level, political institutions provide multiple benefits to individual and corporate actors. These include stability (Huber 1996; Shepsle 1989), social efficiency (Ostrom 1990; Weingast and Marshall 1988), and the reduction of transaction costs (North 1990) among others. However, for distributive theorists, institutions determine how these benefits --first among them political power -- are distributed among different groups, providing some actors with more benefits than others.

Knight (1992) argues that "there are many ways to overcome the obstacles to realize the efficiency effects of institutions."<sup>24</sup> Alternatively, he views the process as entailing competition and conflict among actors with different interests who strive to win in the design of institutions that solve the problems of collective action. Remington (1998) further notes that "differences in interests among individuals will lead to different preferences for institutional arrangements."<sup>25</sup> Because these actors have different goals competition will always be observed among them.

The consequences of institutional choice reflect the initial competition among actors. Therefore, institutional effects are studied in part as efforts by actors to maximize or attempt to

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<sup>22</sup> Thomas F. Remington and Steven S. Smith, "Theories of Legislative Institutions and the Organization of the Russian Duma." *Journal of Politics* vol. 42 (1998) pp. 545-572.

<sup>23</sup> George, Tsebelis, *Nested Games: Rational Choice in Comparative Politics* (Berkeley: University of California Press, 1990).

<sup>24</sup> Jack Knight, *Institutions and Social Conflict*. (Cambridge: Cambridge University Press 1992).pp21-26

<sup>25</sup> Thomas F. Remington and Steven S. Smith, "Theories of Legislative Institutions and the Organization of the Russian Duma." *Journal of Politics* vol. 42 (1998) pp. 545-572.

expand their powers. For instance, Shugart and Carey's (1992) seminal work on presidential powers led to a large research literature that focuses on the distributional effects of clusters of constitutional powers. The presidential powers literature also identifies the larger institutional patterns as exemplified in dominant executives, power-sharing in moderately empowered executives, and dispersed as exemplified in weak executives.<sup>26</sup> The variance in these types comes from whether the legislative powers (proposal, decree, amendment, veto and budgetary) and the powers regarding control of the cabinet (appointment and dismissal) are concentrated in the executive. Comparative statics form the core of their methodology; the more or less concentration of powers in the executive is equivalent to more or less leverage over policy.

Beginning with Shugart and Carey's (1992) seminal work *President's and Assemblies*, the research agenda studies the effects of individual and clusters of constitutional powers. The purpose is to isolate the effects of institutions on the competition among actors for coercive power in the Weberian sense and the executive's desired policy outcomes. Shugart and Carey now focus on the interactions of actors; as such they added new dimensions to their classification scheme by dividing the constitutional powers into proactive powers and reactive powers that have strategic value.

Most scholars working on this research agenda also are concerned by the variation in the design of the legislative powers. For instance, the set of values for veto power, an authority rule, is quite large; it ranges from no veto power at all, through a veto with various (majority, supermajority) overrides, to no override at all, in addition to related powers such as the right to forward bills to a constitutional tribunal. These values determine the *degree of power sharing among political institutions (groups)* and so have differentially distributive effects on political outcomes -- which policies are enacted

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<sup>26</sup> John M. Carey and Matthew Soberg Shugart, "Institutions and Public Policy in Presidential Systems. Center for the Study of Democracy "University of California, Irvine, 1997

To summarize, the distribution of powers appear that they are not direct or linear in their effects. Chapter Three illustrates that in Russia executive power was mediated the nature of executive and legislative relations. Although I do not take on the task of linking the efficiency and powers strands of the literature, there does appear to be a linkage between the design of the powers, their distribution, and the potential for cooperative outcomes.

### **III. Case Selection: The Russian Federation, Hungary and Czechoslovakia**

This dissertation analyzes Russia's struggle over large-scale industrial privatization between 1990 and 1993 as a case study of post-communist political and economic change. The research is directed to examining major decisions in the privatization policy-making process, and how the design of executive and legislative institutions complicated the execution of the transition policy agenda.

In studying the particular case of Russia, the simultaneous transition to democracy and to capitalism is far from complete; thus we are forced to assess a work in progress in which the penetration of liberalism throughout the state remains far from certain. Three factors, however, make the Russian Federation a significant case to analyze the linkages between democratization and privatization.

First, since the late 1980s the Russian political system has undergone several transformations beginning with the change from one-party authoritarian rule to an emerging system of multi-party and multi-candidate competition for control over political institutions which were designed on the model of liberal democracies.<sup>27</sup> The political system which emerged following the political transition, however, has alternatively been described by analysts as a "delegative democracy" (Kubicek, 1993) and "a plutocracy" as the system underwent further changes (Henning-Schroeder, 1999).

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<sup>27</sup> Stephen Whitefield, "Social Response to Reform in Russia," in David Lane ed. *Russia in Transition: Politics, Privatization and Inequality* (London and New York: Longman, 1995) p. 91.

Through the Russia experience, we can explore some of the fundamental issues that are involved in the formation of political institutions, politics, and decision-making processes. In 1992, Russia was building the market and democracy with few historical precedents to follow. In the Russian experiment, the search for methods to structure political conflict, build political legitimacy, and resolve policy problems was posed in a very stark form.

Second, the Russian Federation, given its long and recent history of state control over property, was an unlikely candidate to pursue major transformative privatization and to join in with a select group of post-communist countries to pioneer mass privatization. Nonetheless, in Russia as of 1997, nearly 130,000 formerly state-owned enterprises (out of a total of 267,000 of non-agricultural enterprises) had become privately owned or stock corporations. They included 20,000 large enterprises, each employing thousands of workers. Privatized enterprises today utilize more than 60 percent of the productive capital in manufacturing, produce 75 percent of Russia's gross domestic product and employ about 70 percent of the national labor force.<sup>28</sup>

Further, a new social structure has emerged based on the distribution of income of formerly state owned property. A new and differentiated income structure formed with incomes derived for the first time from private capital (Supyan, 2000; Logue and Bell, 2000). However, unanticipated outcomes can be found that culminated in a highly concentrated income structure and unequal distribution of income. Russia's controversial income structure brought into question earlier policy decisions and political compromises constructed to accomplish rapid privatization

To summarize, Russia's privatization process (1991 to 1994) can allow us to examine how political and economic factors may interact. Russia shares with the other postcommunist states a number of situational conditions and institutional characteristics that are linked to the

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<sup>28</sup>*Social Economic State of the Russian Federation* (Moscow: Goskomstat:1997), p. 125.

economic transition. Examining the linkages between political institutions and economic forces in Russia may well provide insights for understanding similar processes taking place in other political settings.

In addition to exploring the Russian Federation as a single case study, the dissertation also includes a pair-wise comparison of Czechoslovakia's and Hungary's experience. The purpose is to further assess the applicability of the institutionalist approaches that are used to explore the political dynamics of the Russian case. Czechoslovakia and Hungary were selected as contrasting cases based on two sets of factors. First, the selection criteria was based upon post-communist institutional variation. Russia was an imperfect try at separation of powers presidentialism. Aside from regime type, Russia was characterized by an uncomfortable juxtaposition of majoritarian and consensus institutions.

In contrast, Czechoslovakia adopted a pure parliamentary system (Olson, 1996; Wolchik, 1998). Arend Lijphart (1996) has classified Czechoslovakia as an example of a consensus or consociational democracy. Consensus democracies, according to Lijphart (1984), are characterized by strong bicameralism, an independent judiciary, federalism, proportional representation, multipartism, and coalition governments. The sum effects of these institutions is to encourage power-sharing and decentralize power.<sup>29</sup>

Hungary became a parliamentary democracy by virtue of elite pacts. Consonant with the new constitutional framework, strong prime ministerial governance has emerged and strengthened especially during the late 1990s. The semi-proportional electoral system also has been an important tool for creating a parliamentary majority for the government. In addition, the Constitutional Court was established as an essential guarantee of the democracy.

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<sup>29</sup> Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Democracies* (New Haven and London, Yale University Press, 1984).

Hungary emulated the German chancellorship model of parliamentary rule, with its centralized and concentrated governance structures, as the best means to conduct simultaneous political and economic reform. Other majoritarian features of Hungary's political system are its unitary state and unicameral legislature. Although Hungary departs from the pure Westminster majoritarian ideal, its prime ministerial system offers a test of the credibility and efficiency of the fledgling democratic regimes' decision-making and implementation institutions.

Second, the three countries shared similar post-communist experiences with privatization. While twenty-five post-communist countries have experimented with and are in different stages of implementing privatization, Hungary and Czechoslovakia have been identified as pioneers (Lieberman, Nestor and Desai, 1997). From similar starting points, the privatization programs in Russia, Hungary, and Czechoslovakia developed in divergent directions. By the end of 1994, when the first phase of large-scale industrial privatization had taken place, Czechoslovakia had completed its program and could be considered the swiftest and most effective of the privatizers. Russia's controversial mass privatization because of its pattern of property divestment followed. In contrast, Hungary that chose asset sales as one of many privatization strategies did not meet expectations.

The causes of the different outcomes are not self-evident. Policy makers in all three countries shared similar goals for privatization and had to make the same set of decisions regarding the percentage of property the state would divest, the methods, and the potential beneficiaries. Similarly situated interest groups in the respective countries interpreted their interests and pressed their claims in similar ways. However, as this dissertation will demonstrate, the variance in democratic institutions appear to have played a pivotal role.



#### **IV. Outline of The Chapters**

The dissertation examines the role of constitutional and electoral rules in five chapters. Chapter One develops the theoretical framework and outlines the hypotheses that guide the empirical research. The first section considers hypotheses that focus on the constitutional powers that shape the behavior of executives and their ability to achieve their policy agenda. The second section considers hypotheses that examine the role of electoral institutions and party system development to identify whether these institutions optimize collective decision making and contribute to overcoming collective action problems. The final section outlines some predictions regarding Russia, Czechoslovakia, and Hungary.

Chapter Two is the first of three chapters that constitute the core of the dissertation, the research regarding the relationship between Russia's political institutions and privatization. The chapter outlines the findings on the dependent variable. Several important insights emerged from the research. First, Russian privatization strategy departed from the popular scholarly depiction of "privatization by decree." The patterns of law productivity were consistent with past research. However, the legislative strategy of privatization policy was more nuanced than previously reported. Second, Russia's progress regarding property divestment during 1990 to 1994. Russia's controversial mass voucher program has been the subject of criticism. However, the evidence indicates that the program deserves credit for its achievements with the divestment. The program also appeared to limit the possibility of a communist policy reversal to socialist forms of property.

Third, Russian privatization was evaluated for its possible longer-term impact on the income structure and capitalist development. The distributive effects of Russia's choice of privatization policy are addressed in the chapter as an empirical question. I draw upon the large body of recent research that permits analysis of whether the claims regarding the more

controversial aspects of Russian privatization can be supported by the evidence -- the negative affects on income distribution, the rise of bureaucratic capitalism, and state capture.

Chapter Three applies the distributive theory of institutions developed in Chapter One as a possible explanation for Russia's pattern of legislative enactment and implementation of property reforms. The chapter uses comparative constitutional analysis of the Russian 1978 Amended Constitution. The constitutional legislative and non-legislative powers are evaluated as sources of executive power. Multicameral institutions such as federalism, bicameralism, and constitutional courts also are examined for their distributional effects. The chapter also uses a decision-theoretic strategy to identify

Chapter Four uses the Russian case to pose the alternative argument to the top down constitutional approach. The chapter probes electoral and partisan institutions as policy environments more or less conducive to policy change. Following Kitschelt et al. (1998), I explore the effects of party system development on the executive's ability to legislate privatization through statute. Kitschelt's approach draws upon demand and supply theories. Therefore, the research documents instances of interparty cooperation and the formation of legislative coalitions that often are necessary to achieve legislative majorities. The chapter finds that fluctuating partisan conditions created important opportunities for case-by-case coalitions that resulted in final form of the 1992 State Program. The evidence also shows the effects of Sartori's polarized pluralism that began with a realignment of the Russian parliament toward a conservative majority.

Chapter Five further investigates both the distribution of powers and partisan conditions arguments through a pairwise comparison of Hungary and Czechoslovakia's privatization experience (1989 to 1994). First, as in the Russian case the comparative exercise offered some interesting insights into the direct relationship between the distributional effects of the

constitutional powers and some aspects of governance. Second, a more comprehensive explanation is possible by going beyond the bivariate executive powers model to one that considers additional intervening variables. As the distributive patterns of power varied, so did legislative interactions, policy making practices, and the distributive elements of privatization policy. Third, electoral and partisan variables further mediated executive power. In contrast to Russia, the research revealed favorable partisan conditions that contributed to legislative enactment of privatization bills by either permitting a coalition building strategy (Czechoslovakia) or manufacturing legislative majorities (Hungary).

# **Chapter One**

## **Institutional and Partisan Theories of Property Regime Change**

This dissertation develops and tests an institutional theory of property regime change in postcommunist Russian and Eastern Europe. In weighting the effects of institutions, the argument stresses the structuring quality and the substantive content of the rules themselves. In the postcommunist countries, the choice of these rules -- the first democratic institutions of governance and representation -- varied widely. Indeed, much scholarship has been devoted to understand the sources of institutional variation and the effects of institutional choice

In addressing the origins and design of institutions, some political scientists have looked at proximate sources such as leadership ambitions and the relations between postcommunist elites.<sup>1</sup> Others have examined the challenges the leadership confronted in conducting simultaneous transitions to democracy and the market.<sup>2</sup> Equally important in post-communist states, historical, national differences have led to diverse institutional choices and configurations.<sup>3</sup> In these accounts, although the leadership chose institutions under the premise

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<sup>1</sup> See Raymond Taras, "Separating Power" in Ray Taras ed. *Postcommunist Presidents* (Cambridge: Cambridge University Press, 1997). pp.15-37; Jon Elster, Claus Offe and Ulrich K. Preuss, *Institutional Design in Post-Communist Societies; Rebuilding the Ship atb Sea* (Cambridge: Cambridge University Press, 1998). Constitutional choice (presidential or parliamentary systems) theories emphasize the relations of the first democratically-elected president and the legislature, and/or the political ambitions of the new elites in different branches of government. See Thomas F. Remington and Steven S. Smith, "Theories of Legislative Institutions and the Organization of the Russian Duma." *Journal of American Politics* vol. 42 pp. 545-586 for an argument of institutional choice based upon multiple goals including policy, electoral ambitions, and party loyalties.

<sup>2</sup> These authors highlight transition challenges and the prevailing consensus about the desirability of strong leadership or of checks and balances. See Stephan Haggard and Matthew D. McCubbins "Political Institutions and the Determinants of Public Policy" in Stephan Haggard and Matthew D. McCubbins eds. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000) pp. 1-17; Stephan Haggard and Robert F. Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995); Lazlo Bruzt and David Stark, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge: Cambridge University Press, 1998).

<sup>3</sup> Institutional variation is attributed to in political, social, cultural, and historical factors that conditioned institutional choices. Historical factors include pre-communist experiences in political development, variation in communist rule, and the paths different countries took in the extrication from communism. See Terry Lynn Karl "Dilemmas of Democratization in Latin America" *Comparative Politics* 1990. p.7.

of altruistic or self-interested motives and faced myriad tasks, their choices were limited by path-dependency. Leadership choices were constrained by previous experiences with democracy, the type of communist regime, and the positional socioeconomic and political power of postcommunist elites. Although the new democracies vary in the ways their institutions are configured, postcommunist states have addressed similar issues. Most have aspired to achieve political objectives such as institutionalizing the rule of law, creating a balance among political institutions, ensuring the accountability of elected officials, and enhancing the efficiency of government.<sup>4</sup> In diverse national settings different weights or priorities were assigned to these objectives.

Some postcommunist constitutional designers appeared to stress effective governance. With the transformation of the economy as a priority, these countries opted for majoritarian institutions with a highly centralized executive.<sup>5</sup> Others emphasized representation, since they had to consider nationalist, ethnic, and societal issues in addition to conducting economic transformation. These countries opted for consensual institutions that highlighted decentralized institutions that permitted power-sharing arrangements.<sup>6</sup> Variations on these two types also appeared as constitutional designers sought to balance efficiency in governance, representation, and responsiveness.

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Beverly Crawford and Arend Lijphart, "Old Legacies, New Institutions: Explaining Political and Economic Trajectories in Post-Communist Regimes," in Beverly Crawford and Arend Lijphart eds. *Liberalization and Leninist Legacies: Comparative Perspectives on Democratic Transitions* (Berkeley: University of California Press, 1995) pp. 1-35; Bruce Parrott, "Perspectives on Post-Communist Democratization," in *The Consolidation of Democracy in East-Central Europe*, eds. Karen Dawisha and Bruce Parrott (Cambridge: Cambridge University Press, 1997).

<sup>4</sup>Raymond Taras, "Separating Power" in Ray Taras ed. *Postcommunist Presidents* (Cambridge: Cambridge University Press, 1997), p.15.

<sup>5</sup> The FSU countries (Russia, Ukraine, Kazakhstan) that created super-presidencies, and Hungary.

<sup>6</sup> The Baltics, Czechoslovakia.

Coming from multiple theoretical and methodological perspectives, subsequent studies have explored linkages between the new institutional configurations, governance, and the outcomes of economic reform. Using the postcommunist cases to explore the role of institutions and economic policy formation, new insights have been offered concerning long-standing issues such as the role of executive power, legislative politics, and electoral institutions. Increasingly, the trend is toward finding common theoretical ground for unifying diverse institutional variables into a theory of institutions.

This chapter draws upon these insights. My analysis explores the differences among constitutional designs to further ascertain and define the effects of institutions on the legislation of privatization reforms. Specifically, I examine two aspects of national policy environments -- the institutions that structure governance (1) the distribution of constitutional powers; and (2) the electoral system and party system development. The research concerns how specific institutional designs enable efficient governance, law making, and ultimately a rapid and equitable response to changing socioeconomic imperatives -- the transformation of long-standing property relations.

My institutional analysis first considers the role and relevance of executive power as situated within the larger institutional setting. The research focuses on the constitutionally enumerated legislative and non-legislative powers. Theoretically, close attention is paid to the constitutional powers in terms of their aggregate affects on executive power. Then, specific patterns of constitutional powers are investigated to understand how they structure executive and legislative relations and, by extension, the nature of decision making in different institutional contexts. The analysis also considers how other constitutional design features such as dual executive structures, federalism, and the existence of a powerful independent constitutional court may complicate the relationship between executive activism and policy reform.

As an alternative to power distribution theories, I discuss the literature regarding electoral rules, party system development, and the potential for legislative coalition-building to theorize the determinants of property regime transformation. These theories highlight the consequences of electoral institutions on representation. If executive power is thought to positively (negatively) shape coordination and cooperation among institutional actors in collective decision making settings, partisan actors and stakeholders are believed to make the task of legislating equitable privatization policy more difficult.

Previous studies of opposition and support for privatization focused on the positional resources and lobbying efforts of state enterprise employees. Recently, the role of such actors known as stakeholders has been recast in the literature. Stakeholders are viewed as circumscribed within the institutions of governance. Economic interests are cast as one among several important policy actors including the government, political parties, and their leadership. Following this interpretation, my research addresses the challenge of how collective decisions or legislative majorities are arrived at in different legislative settings.

The rest of this chapter proceeds as follows. In Section I, I outline the two dimensions of the dependent variable, the degree and kind of policy change that resulted from privatization decision making. In Section II, I discuss institutional theories thought to be useful for explaining how the institutions of governance influence the degree and kind of privatization in postcommunist societies. In Section III I introduce rival explanations of privatization that accord partisan conditions a central role in property change. Finally in Section IV, I offer some predictions premised on the competing constitutional powers and partisan arguments.

## **I. Privatization: The Degree and Kind of Change**

The dependent variable under study is privatization policy. In the postcommunist countries, the issue of privatization strategy and outcomes is a complex one. Nowhere in the world had a nation-wide program been implemented before. The scale of privatization also accounts for the major difference between the postcommunist transitions and those in Latin America and Southern Europe. Each postcommunist state developed its own strategy of privatization with varying results.

Several questions arise from the postcommunist experience that are addressed in this study. First, I ask why some governments implement reforms quickly and decisively while others are marked by delay and indecision? Second, what explains the variation in policy implementation, including the speed of divestment, coherence, and sustainability? Third, why were some privatization policies responsive to the general welfare, while others fostered inequity as responses to particularistic interests?

To address these questions, an institutional approach begins with the premise that privatization is accomplished through governmental action. In postcommunist countries, the key institutional actors included the executive (president, prime minister and privatization minister) and the legislature (the leadership and committees). Privatization strategies were the outcome of a policy making process that entailed deciding the pace, methods, and beneficiaries of property transformation.

As the dependent variable, privatization outcomes can be divided into two categories that will be discussed in detail below. The first category is the degree of change that focuses on the policy making process and the corresponding quantitative changes in property relations following the implementation of policy. The second category is the qualitative kind of change or the distributional aspects of policy choices that shaped the life's chances of society.



## A. The Degree of Property Change

For estimating the degree of change, one can turn to criteria applied by economists to evaluate privatization. There are two categories. The first is quantitative and measures technical efficiency. The measures include the speed of the process, clarity of legislation, efficiency of the methods, instruments, and organizational procedures employed in the privatization process. The second is qualitative efficiency; it addresses whether the newly transformed private firms can compete and expand in the market environment.

Political economists also are interested in these dimensions, but not from a purely technical perspective. This research relies on efficiency criteria, but places the emphasis on the national leadership's capacity for governance. Drawing from the new institutions literature, effective governance can be defined as a set of capacities related to the attainment of optimal collective decisions. Cox and McCubbins (2000) define effectiveness simply as the capacity to change policy.<sup>7</sup> Giovanni Sartori (1994) defines effectiveness or efficiency in governing as structural capabilities rather than the performance of specific prime ministers or presidents.<sup>8</sup> Effectiveness, he notes, refers to "undoing and dismantling," as well as the ability of governments to implement the policies they pursue. As Sartori (1994) notes, "the difference between an effective and impotent government is that the former may decide against doing something, whereas the latter cannot do what it would like to do."<sup>9</sup>

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<sup>7</sup> Gary W. Cox and Matthew D. McCubbins "The Institutional Determinants of Economic Policy" in Stephan Haggard and Matthew D. McCubbins eds. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000).pp. 21-63.

<sup>8</sup> Giovanni Sartori, *Comparative Constitutional Engineering: An Inquiry into Structures, Incentives, and Outcomes* (Washington Square, New York: New York University Press, 1994) p.111.

<sup>9</sup> Giovanni Sartori, *Comparative Constitutional Engineering: An Inquiry into Structures, Incentives, and Outcomes* (Washington Square, New York: New York University Press, 1994) p.112.

In the privatization literature, several indicators have been developed as criteria for effective governance. David Barlett (2000) in his study of Hungarian privatization, cites legislative productivity as well as Hungary's achievements in attracting foreign investment.<sup>10</sup> Taking a political economy approach to Hungarian privatization, Paul Hare and Anna Canning (1996) focus on the scope of government objectives and measure performance based on the achievement of the government stated goals.<sup>11</sup> Stark and Bruzt's (1998) comparative study of Hungary, Poland, East Germany, and the Czech Republic uses indicators related to the coherence and sustainability of government policy.<sup>12</sup> Russia's mass privatization policy has been evaluated using criteria related to divestment and irreversibility of the transition. The more problematic aspects have been defined as governance problems related to coordination between the executive and legislative branches.

Following the definitional and conceptual criteria from both literatures, I define the degree of change on three dimensions. The first dimension concerns effective governance defined as legislative productivity -- the passage of the corpus of framework laws necessary to implement privatization. As an indicator of this dimension, I use the date of enactment of the preparatory and framework laws. Countries also varied as to whether they enacted framework laws or used temporary laws. I also use the pace of law-production; this tracks whether laws were legislated in a timely manner (months rather than years). The second dimension refers to policy implementation -- the pace and extent of divestment from the state. The indicators I use include the percentages

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<sup>10</sup> David Bartlett, "Hungary" in Donald M. Hancock and John Logue, eds. *Transitions to Capitalism and Democracy in Russia and Central Europe: Achievements, Problems and Prospects* (Westport, Connecticut and London: Praeger, 2000) pp.

<sup>11</sup> Anna Canning and Paul Hare, "Political Economy of Privatization in Hungary: A Progress Report," *Working Papers Center for Economic Reform and Transition*, September, 1996.

<sup>12</sup> See Lazlo Bruzt and David Stark, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge: Cambridge University Press, 1998) pp. 166-170.

of property transferred (relative to the objectives set by the government), the percentage shift of employment in the workforce, and the industrial sectors included or not included in the first programs.<sup>13</sup>

The third dimension is policy sustainability. Here the performance indicator concerns whether a country enacted a consistent policy over time. Alternatively did the country persistently reverse policy direction when problems arose? Policy stability also can refer to major shifts of direction once a program is completed. Instability most likely will occur following electoral cycles when a new government replaces the previous one.

## **B. Property Ownership Regimes --The Kind of Change**

Privatization also involves the kind of change states enact. The kind of change examines the improvement of citizen's life's chances that can result from privatization. Significant differences in wealth and power follow large divestments of state property. In this way, privatization directly affects the emergence of capitalist systems, the quality of democracy, and the development of an equitable socioeconomic structure. Privatization has been linked to issues of equity and wealth through the redistributive mechanisms of the divestment process. Because of the redistribution of assets, privatization contributed to new sources of income; the social structure and status of groups changed accordingly.

For analyzing the kind of change, I draw upon theories of corporate governance, bureaucratic capitalism, and state capture. The literature focuses on the elements of the new ownership regime. The theories on corporate governance link the type of future owners, the concentration of the ownership structure, and the rules that govern ownership (property rights and secondary markets) to future economic growth. The literature on bureaucratic capitalism and

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<sup>13</sup> The World Bank and European Bank for Reconstruction and Development have developed several indexes for estimating property change. The problem with using these indicators is that they do not separate new private businesses from the transformation of the older state enterprises.

state capture link the type of owners and the concentration of ownership to the larger patterns of socioeconomic transformation.

Two key indicators that I use are the attributes of the owners and the patterns of ownership.<sup>14</sup> In terms of ownership attributes, privatization policies varied by whether they favored individuals versus corporate owners, insider ownership by employees and management versus outside new investors, foreign versus domestic firms, and the state's share holdings. Privatization policies also varied in the pattern of ownership structure that they promoted. Following the research literature on insider-outsider ownership, the key indicators concerned the concentration of majority stakes and the rise of financial industrial conglomerates.

The ownership regime variable allows us to draw out the longer-term effects of privatization policy decisions; it helps identify under what conditions privatization generated novel forms of property ownership. The issue addressed here concerns the consequences for the processes of economic transformation and democratization. Did the distribution of property rights contribute to supportive social structure based on equity? Cui bono (who benefited)? Did property regimes advance capitalism or contribute to creation of perverse forms such as bureaucratic capitalism?

## **II. The Institutional Determinants of Property Regime Change**

To explain the degree and kind of property transformation in postcommunist countries, my institutional analysis entails a multifaceted treatment of the distributive properties and patterns of constitutional power. The argument is developed in several steps. First, I begin at the most abstract level, proposed by Lijphart (1984).<sup>15</sup> Along a continuum of power distribution,

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<sup>14</sup>Although the enforcement or regulatory regime of property rights is crucial to corporate governance and protection of citizens' rights, there is a large body of literature dedicated to this subject. Thus, given research limitations, the legal foundations of property rights goes beyond the scope of this study.

<sup>15</sup> Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Democracies* (New Haven and London, Yale University Press, 1984).

institutions are expected to vary to the extent that they result decentralize or centralize governing authority. In my model, these patterns constitute the outer frame or background conditions shaping the politics of privatization. Second, at the next and more concrete level, the distributive properties of the constitutional powers are considered as resources that executive policy actors draw upon to achieve their policy agenda. Undoubtedly, the likelihood of policy change stems directly from centralized, executive power resources (such as decrees in some instances).

Third, additional institutional variables are factored into the ways that executive power influences policy outcomes. Therefore, I introduce two mediating variables -- (1) multicameral institutions; and (2) the patterns of power structuring executive and legislative relations. I argue that the exercise of executive prerogatives depends on not only the goals that executives in new democracies seek to pursue, nor just their constitutional rights, but the rules of the game as dictated by the larger institutional environment in which they operate.

#### **A. Majoritarian and Consensual Constitutions**

From Arend Lijphart's (1984) categorization of democracies, the starting point of my analysis entails three broad categories of institutional effects -- power-concentrating, power-sharing, and power-fragmenting.<sup>16</sup> The distribution of power further can be viewed as a continuum. Lijphart's categories of majoritarian and consensus democracies frame the outer boundaries of the power distribution. Each ideal type is associated with a cluster of institutions at the constitutional and electoral level that centralize or decentralize power in democratic regimes.

The theory linking policy outcomes to these patterns of constitutional power concerns whether institutions foster conflict or consensus among decision makers, leading to more or less competitive or consensual policy styles (Keman, 1996, 1999; Birchfield and Crepaz, 1998; Luebbert, 1994). Lijphart (1994) finds that a consensual style of politics is more conducive to

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<sup>16</sup> Ibid.

successful macro-economic management. Specifically, Lijphart (1994) finds an association between higher social expenditure, lesser economic inequality, generous foreign aid and decentralized consensual constitutions.<sup>17</sup>

In creating the institutional context for policy formation, the constitutional powers centralizes or decentralizes power. From this perspective, political institutions are expected to play a critical role in clarifying strategic expectations in ways that subsequently constrain the actions and options open to political actors.<sup>18</sup> The important point is that political behavior diverges under different distributions of power at a macro-level. Lijphart's (1984, 1996) model also is highly inclusive; it features eight macro institutional foci of democracies. The elements include the electoral system (majoritarian or proportional), state format (unitary-federal), executive (parliamentary, presidential or variations), judiciary (legal review), legislature (unicameral-bicameral), state-society (corporatism-pluralist), elite cooperation (consociationalism), and autonomy (central banks).

Although Lijphart's model is comprehensive, there is one weakness; it requires further specification to account for variation among majoritarian and consensual types. Andrew Reynolds (1999) in his large comparative study of African democracies has authored a methodological remedy for this omission, so that his categories differentiating the distribution of power is populated by five types of democracies.<sup>19</sup>

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<sup>17</sup> Arend Lijphart, *Democracies: Government Forms and Performance in Thirty-six Countries* (New Haven, Connecticut: Yale University Press, 1999); Arend Lijphart, "Democracies: Forms, Performance, and Constitutional Engineering," *European Journal of Political Research* vol. 25. 1994 pp. 1-17.

<sup>18</sup> John M. Carey, "Parchment, Equilibria, and Institutions" *Comparative Political Studies* vol. 33 no. 6/7 August-September 2000 pp. 735-761.

<sup>19</sup> Andrew Reynolds, *Electoral Systems and Democratization in Southern Africa* (Oxford: Oxford University Press, 1999).

Lijphart's second major contribution to the study of how institutions shape the behavior of political actors concerns his themes of consensual and conflictual leadership policy styles. However, given Lijphart's emphasis on macro-structures, the tendencies in a political system toward consensus and conflict policy models appear to be a given. Testing whether these institutional patterns (e.g., proportional representation, judicial review, federalism, bicameralism, multiparty systems, and coalition style governance) are linked to consensual interactions among political actors requires a micro-logic approach to the study of institutions. Thus, as the discussion below elaborates, other approaches have taken up where Lijphart has left off. The literature on powers distribution and positive institutionalist theories have endeavored to use variants of social choice and constrained rational choice methods to address the issue of institutional effects as an empirical question.

## **B. Comparative Constitutional Powers Theory**

Another prominent distributive institutionalist approach uses comparative constitutional analysis. As pioneered by Shugart and Carey (1992), regime theory underpins this research agenda. Executive power is examined as a continuous measure or continuum of centralized to decentralized power structures, not a dichotomy. Shugart and Carey are most known for using the constitutional powers to differentiate presidential regimes. However, many scholars since have extended comparative constitutional analysis to examine semi-presidential (Schleiter, 2000) and parliamentary regimes (Huber, 1998; Laver and Shepsle, 1999).

Comparative institutionalists have studied the constitutional powers individually and as a repertoire of policy instruments. Constitutional power often is interpreted as an instrumental ends-means approach to responding to the imperatives of policy change. On the constitutional level, three sets of institutions are expected to generate the largest and most systematic distributive effects. That is, institutional actors are expected to be (dis) advantaged by the

enumeration of (1) the non-legislative origin and survival powers; (2) the legislative powers and (3) multicameralism as well as the (non)existence and strength of an independent judicial body at the constitutional level represented by some form of constitutional court. Although electoral laws are not always inscribed in the parchment or written constitution, Shugart and Carey (1997) include them as a fourth dimension of power distribution as partisan powers.

Until recently comparative policy research has focused on one or at most two of these categories. In a study examining the indirect effects of presidential power on radical economic reform and its outcomes, Kitschelt (1991, 2001) operationalizes the concept of presidential power by an index that only includes cabinet appointment, decree, and veto powers. Shugart and Carey's (1992, 1997) specification is far more inclusive; they generally use a joint index of legislative and non-legislative powers.<sup>20</sup> In the comparative analysis of postcommunist countries, Shugart (1995), Hellman (1996), Frye (1999), Norgaard (2000), and others also have studied the two clusters of powers jointly as a predictor for executive activism and unilateralism. McCubbins and Haggard's (2000) edited volume recently echoed Steinmo and Thelen's (1992) call for more comprehensive modeling of institutions.<sup>21</sup> Consequently, state format including federalism, bicameralism, judicial review, and independent central banks also has been examined as a constraint on executive power.<sup>22</sup>

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<sup>20</sup> John M. Carey and Matthew Soberg Shugart, "Institutions and Public Policy in Presidential Systems" Center for the Study of Democracy University of California, Irvine, 1997.

<sup>21</sup> Stephan Haggard and Matthew D. McCubbins "Introduction: Political Institutions and the Determinants of Public Policy," in Stephan Haggard and Matthew D. McCubbins eds. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000) pp.1-20.

<sup>22</sup> For an index operationalizing these structures, see Manfred Schmidt, "The Impact of Political Parties, Constitutional Structures, and Veto Players on Public Policy", in Hans Keman ed. *Comparative Democratic Politics: A Guide to Contemporary Theory and Research*. (London, Thousand Oaks, and New Delhi: Sage Publications 2002) pp. 166-184; See also E. Huber, Charles Ragin, and J. Stephens, "Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State," *American Journal of Sociology* Vol. 1999, 1993 pp. 711-749.



### **C. Positive Theories of Institutions**

Pioneered by those studying the U.S. political system, and increasingly used by comparativists, positive theories of institutions represents an effort to synthesize the diverse approaches populating the new institutionalist literature. Working within a social choice framework, scholarship seeks to understand executive power in relation to the overall process of collective decision making. Positive theorists begin with premise that the relationship between executive power and policy change is not, as often thought, a direct one.

For instance in a large-N study of the institutional determinants of economic reform, Herbert Kitschelt considers the importance of (de) centralized power in the hands of the executive. But Kitschelt is clear in stating that the relationship depends on additional conditions; he goes on to look at party system development as the critical intervening variable in presidential systems. Similarly, Kodolowski (2002) examines policy regarding budget expenditures in the Russian Federation; he argues that the president is powerful only insofar as he can draw upon the constitutional sources of executive power. In his theory, dual executive structures, in which you have an equally powerful prime minister and president can mediate executive power.<sup>23</sup>

In positive theories, executive power is conceptualized in two ways. First, the constitutional powers are viewed as instrumental (means-ends) capacities. For the executive to be perceived as a powerful figure, the incumbent has to hold the leverage for conducting the policy game. Second, the constitutional powers assume importance as strategic tools of manipulation. Using Tsebelis's (1990) concept of nested games, the executive or legislature's ability to effectively draw upon a power to achieve their preferred policy outcomes depends on

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<sup>23</sup> Alexander Sokolowski, "Bankrupt Government: Executive-Legislative Relations in Budgetary Politics in Yelstin's Russia." paper presented the Annual Meeting of the APSA August 30 to September 2, 2001.

the distribution across the branches. In addition, the executive powers either can be limited by or can limit the influence of constitutional features such as federalism or a constitutional court.

To summarize my argument thus far, the effects of the constitutional powers on the likelihood of property regime change can be diagrammed as follows:

**Distribution of legislative and non-legislative powers → (de) centralized executive power → pattern of distribution between the branches → multicameralism = the degree and kind of privatization**

In the following section, I draw upon the literature on constitutional powers to develop the hypotheses that will guide empirical investigation of the institutional determinants of the degree and kind of property change. I begin by examining the effects of the origin and survival rules as they constitute power in any given political system. Then I consider the distribution of the legislative and non-legislative powers as the bases of executive power. Next I analyze the possible patterns of constitutional powers in light of their properties known to structure executive and legislative relations. The question posed here is whether the observed patterns will match the hypothesized effects on executive activism. Finally in the third section, I factor in the implications of multicameral constitutions.

#### **D. The Origin and Survival Powers -- Fixed Terms and Mode of Elections**

In the debate over the merits of presidentialism versus parliamentism, the parliamentary fusion of separation of origin and survival powers is associated with higher levels of executive dominance. Executive dominance is created by the confidence measures that invest all legislative power in the prime minister and cabinet; the legislature's role is formal ex-poste approval. But this configuration can only be found in the pure British Westminster model also known as majoritarian parliamentism. Majoritarian parliamentism is rare compared to the other parliamentary types that can be found worldwide.

In presidential systems, such as that found in the United States, "the separation of powers means the independence of the executive and legislative branches as well as the rule that the same person cannot serve both."<sup>24</sup> Because of the separation of powers, presidents are more constrained and less able to take action and exert control over policy. Arend Lijphart (1984) notes that "there is no doubt that constitutional separation of powers tends to give the legislature more strength and independence vis-a-vis the executive than does fusion of powers. In particular, the United States Congress is a strikingly powerful legislative body compared with parliaments of all parliamentary systems discussed in this book"<sup>25</sup>.

Similar arguments underpin explanations for the kind of policies states adopt. Some scholars argue that presidentialism is more likely than parliamentism to result in particularistic, distributive privatization policies favoring highly organized business or labor interests.<sup>26</sup> The

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<sup>24</sup> Arend Lijphart *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Democracies* (New Haven and London, Yale University Press, 1984) p. 71.

<sup>25</sup> Ibid. p. 84.

<sup>26</sup> Stephan Haggard, Stephan and Matthew D. McCubbins "Introduction: Political Institutions and the Determinants of Public Policy," in Stephan Haggard and Matthew D. McCubbins eds. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000) pp.1-20.

separation of origin and survival powers in presidentialism results in two separate elections; first, the president is elected by and responds to incentives created by his/her national constituency, and second the legislature is elected by and responds to incentives created by his/her local electorate.

This division in origin and survival powers means only presidential executives highly independent of the legislature can deliver policies crafted with a national, public goods orientation. In parliamentism, the conflicting incentive structure is resolved through the fusion of executive power and the confidence provisions. The expectation is that factors such as party discipline, the need to influence the makeup of the executive branch, and the tendency of voters to reward legislators who adhere closely to the party line are linked to incentives for legislatures to align with broad national policy (Shugart and Carey, 1997).

### **1. The Non-Legislative Powers: Appointment, Dismissal, Censure, and Investiture**

Another approach to understanding the effects of non-legislative powers transcends regime type. This theory focuses on the distribution of non-legislative powers, which shapes the chief executive's ability to control the office of the executive. At the highest level of concentration of these powers, the executive can coopt control over the accountability of the office. These powers include the appointment and dismissal powers, investiture, and censure over the prime minister and cabinet. Equally important are the executive's capacity to dissolve parliament, and the parliament's right to impeach the president.<sup>27</sup>

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<sup>27</sup> Thomas F. Remington, "Law-Making and the Separation of Powers in Russia" unpublished paper, January 28, 2001.

The cluster of powers (appointment, dismissal, and investiture) related to the formation of the cabinet are important to policy change because the choice of personnel enables the executive to set the policy agenda. Therefore, if the chief executive opts for a unified policy team, his/her chances of achieving this goal depends upon parliament's investiture powers. There are a number of ways to design the appointment, dismissal, and investiture procedures. In the first type as in Hungary (1990-2003), parliament approves just the prime minister and accepts the cabinet as a whole upon the approval of the prime minister's program. In the second type as in Czechoslovakia (1989-1993), parliament can approve both the prime minister and individual ministers. In these cases, the prime minister should be less able to control the government and policy direction. In most postcommunist countries, the cabinet was a coalition that included two or more parties. In these cases, because the portfolios are divided among the coalition partners, the prime minister should be less able to control the government and policy direction. In the third type as in Russia (1991 and 1992), parliament has no say over the appointment and dismissal of the prime minister and cabinet. The president or prime minister then has total control over the cabinet and the discretion to create a unified policy team.

In designs one and three the executive can act unilaterally; the incumbent controls the office of the executive, the choice of personnel necessary to achieve his/her policy agenda, and the option of fashioning a technocratic change teams. In addition, the chief executive's discretion over the dismissal powers without parliamentary interference permits some flexibility with failed appointments. But the personnel instrument to remove individual ministers can also contribute to cabinet instability, if executive appointments are politically motivated.

Censure or the no-confidence measure also can give parliament some control over the executive in parliamentary and semi-presidential regimes. Censure refers to parliamentary removal of a prime minister or cabinet minister based on the principle of cabinet responsibility to parliament. As Huber (1996) notes, “this institutional arrangement ensures that directly elected members of parliaments can control policy-making activities by the executive.”<sup>28</sup> In these constitutions, the censure requires a simple vote of no confidence by a parliamentary majority.

However, there are also several ways to design the censure instrument; the variation in the structure of confidence vote procedure can change the distributive implications. To avoid cabinet instability, several postcommunist countries have rationalized the no-confidence procedure to make it more difficult to invoke; this is accomplished by requiring a certain percentage of deputies to table the measure and super-majorities to pass it.<sup>29</sup> Another version derives from Germany’s constructive vote of no confidence.<sup>30</sup> The constructive vote procedure raises the difficulty for removing a prime minister; it requires first naming a new prime minister and forming a new government prior to removing the one already in place. The constructive no confidence vote, some have argued converts the terms of the prime minister into a fixed term.<sup>31</sup>

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<sup>28</sup> See John D. Huber, “The Vote of Confidence in Parliamentary Democracies,” *American Political Science Review* vol. 90 no. 2 p.269.

<sup>29</sup> See Evgenii Tanchev, “Parliamentism Rationalized,” *East European Constitutional Review* Vol. 2 No. 1 Winter 1992 pp. 33-35. Tanchev notes that many postcommunist parliaments have rationalized the system of cabinet responsibility, the investiture procedure, and the spontaneous dissolution of parliament. Rationalized censure votes require the support of one-fifth to one-fourth of the mps. Another method to restrict the use of the procedure entails prohibitions against raising no-confidence votes for a certain period of time.

<sup>30</sup> See John D. Huber, “The Vote of Confidence in Parliamentary Democracies,” *American Political Science Review* vol. 90 no. 2 pp.269-282; Giovanni Sartori, *Comparative Constitutional Engineering: An Inquiry into Structures, Incentives, and Outcomes* (Washington Square, New York: New York University Press, 1994) for a general discussion of the importance of the constructive no-confidence mechanism. See also Lazlo Stark and David Stark *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge: Cambridge University Press, 1998) for a discussion of constructive no confidence mechanism in Hungary.

<sup>31</sup> Matthew Shugart, “Of Presidents and Parliaments,” *East European Constitutional Review*, Vol. 2 1993, pp. 30-32.

As the procedure becomes more difficult to implement, censure becomes less effective as a blackmail strategy and parliament has less control over policy.

## **2. Dissolution and Impeachment: High Stakes Policy Strategy**

The constitutional rules for dissolution and impeachment also hold important policy implications as an instrument for blackmail. Dissolution refers to the ability of the executive under certain circumstances to dissolve parliament and call for new elections. The conditions usually involve parliament's failure to pass a budget within a certain time frame or approve a prime minister after so many tries or within a specified time frame. The executive, however, can use the provision to threaten parliament or leverage the executive's bargaining power with parliament. Impeachment refers to removal of a sitting president.

The impeachment provision can be designed with either a high or low bar for removal from office.<sup>32</sup> The lowering of standards for impeachment can include the criteria for impeachment. For instance, a lower threshold for initiating impeachment proceeding can take place if the president just breaks a law or has acted beyond his role as defined by the constitution. Both can be liberally interpreted to include a wide range of acts. With the lower bar, impeachment like dissolution can be used by parliament to threaten or to conduct high stakes brinksmanship.<sup>33</sup>

In sum, the assignment of the non-legislative powers can assume three distributive patterns. In the first pattern, the powers are concentrated in one branch. If the chief executive is a president, the incumbent has a fixed term. If a prime minister heads the executive, the incumbent enjoys the protection of his term afforded by the constructive vote of no-confidence. The chief

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<sup>32</sup> See Alexander M. Yakovlev, *Striving for Law in a Lawless Land: Memoirs of a Russian Reformer* (Armonk, New York: M.E. Sharpe, 1996).pp. 99-116 for a discussion of how impeachment mechanisms can vary and the specifics of the Russian procedure.

<sup>33</sup> Thomas F. Remington, "Law-Making and the Separation of Powers in Russia" unpublished paper, January 28, 2001.

executive controls the government through the appointment and dismissal powers; there are low to no investiture requirements. The executive, if a president, also can if necessary dissolve parliament, without fear of impeachment. In this pattern, the executive is expected to be independent of parliament. There is little restraint on executive power in terms of horizontal accountability. In this scenario, a liberal executive should be able to extract low-cost, radical reforms with the advantage of control over the government, longer time horizons, and the security of tenure as a policy weapon against the other. In this scenario, moderately decentralized power should induce bargaining and negotiated outcomes.

In the third pattern, the executive is highly dependent on parliament. Control over the cabinet is shared between the executive and legislative branches through investiture approval of the prime minister as well as individual cabinet ministers. The prime minister's term is not assured since parliament can hold the incumbent accountable through a normal no-confidence procedure. The executive cannot dissolve parliament, but parliament can remove the president through a low-bar impeachment mechanism. In this scenario, the executive is predicted to be dependent on parliament. The concentration of non-legislative powers in the parliament also should induce bargaining with high cost, less radical privatization outcomes.

From this discussion, the following hypothesis can be drawn.

H1: The transformation of property regimes is most likely in systems where the non-legislative powers are concentrated in the executive rather than decentralized across the branches. In particular,

- More independent, centralized executive institutions, should be associated with a greater degree of property change and with the kind of change that promotes the general will over particularistic interests.
- The less independent the executive, the lesser the degree and kind of change making privatization programs likely to rest on design elements that sustain large portions of socialized ownership and benefit particularistic interests.



## **E. The Distribution of Legislative Powers**

Theoretical accounts exploring the separation of origin and survival powers presuppose that executives are the most powerful policy actor. But the capacity of prime ministers or presidents to adopt radical, privatization strategies also depends on the constitutional distribution of legislative powers. Shugart and Carey pioneered this approach to identify variation within presidential regimes.<sup>34</sup> They highlight four distinct elements that can be used to attain instrumental advantage in the decision making process: (1) agenda setting or exclusive proposal, (2) decree power, (3) amendment, (4) veto, and (5) referenda. The authors further developed this approach by assigning strategic roles to each power to create a categorization that includes proactive powers and reactive powers.<sup>35</sup>

### **1. The Proactive Powers**

Proactive powers refer to proposal powers including exclusive rights of legislative initiation, agenda control and decree authority. The proactive powers are offensive policy instruments. Proposal power such as submitting a bill to the assembly for an up or down vote or giving priority to government bills increase the capacity of executives to promote policy change by constraining the assembly to choose among a set of alternatives and/or under strict time limits. Kingdon (1981), writing on the importance of agenda control, argues that it is a significant tool in policy formation since those that hold it control the terms of the debate. In Kingdon's words, "the patterns of public policy are determined not only by such final decisions such as votes in the

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<sup>34</sup> John M. Carey and Matthew Soberg Shugart *Presidents and Assemblies: Constitutional Design and Electoral Dynamics* (Cambridge: Cambridge University Press, 1992).

<sup>35</sup> See John M. Carey and Matthew Soberg Shugart, "Institutions and Public Policy in Presidential Systems," Center for the Study of Democracy University of California, Irvine, 1997. pp. 15-19. The authors outline three sets of powers constitutional, partisan, and administrative (ability to offer side-payments).

legislature, or initiatives and vetoes by presidents but also by the fact that some subjects and proposals in the first place and others are never seriously considered."<sup>36</sup>

Decree powers allow executives to issue legislation with the force of law without the approval or even against the will of the assembly. Legislative decrees produce an immediate change in the legislative status quo. Decree power can also be designed in more than one way. Carey and Shugart (1997) and Mainwaring (1997) using systematic comparisons of legislative decree powers show that executives can act either under specific constitutional provisions or under legislative authorization.<sup>37</sup> They conclude that decrees may be a crucial instrument for executives in new democracies to change the policy status quo. As a policy tool, the value of decree power stem from its strategic value in interbranch bargaining situations. As Shugart and Haggard (2000) write, "decree powers do not allow executives to dominate the legislative process, but they do allow presidents to initiate policy change and obtain legislative outcomes that the legislature on its own may not have passed."<sup>38</sup>

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<sup>36</sup> John Kingdon, *Agendas, Alternatives, and Public Policy* (New York: Harper Collins, 1984)p. 69; See also Frank Baumgartner and Bryan Jones, *Agendas and Instability in American Politics* (Chicago: University of Chicago Press, 1993).

<sup>37</sup> Matthew S. Shugart and John Carey, (eds.) *Executive Decree Authority* (Cambridge: Cambridge University Press, 1998); Matthew S. Shugart and John M. Carey, "Institutions and Public Policy in Presidential Systems," Center for the Study of Democracy University of California, Irvine, 1997.

<sup>38</sup> Stephan Haggard and Matthew Shugart, "Institutions and Public Policy in Presidential Systems" in Stephan Haggard and Matthew D. McCubbins eds. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000) p. 74.

## 2. The Reactive Powers

Veto powers held by the president, amendment powers held by the legislature, and the ability of prime to attach a confidence vote to a piece of legislation are reactive powers. Veto powers are found in presidential or semi-presidential systems; they also exist in parliamentary systems that have dual executives. A veto by definition cannot move policy in a new direction. That is, the veto simply allows the president to reject legislative action by not signing it; vetoed legislation is then sent back to the legislature which can attempt to override it. Kiewiet and McCubbins (1988) note that the veto "allows the president to defend the status quo by reacting to the legislature's attempt to alter it."<sup>39</sup>

Amendment powers enable the legislature to change executive proposals or its own through committee process or on the floor. Amendment power can come in the form of open rules or closed rule process.<sup>40</sup> In the open rule version, the legislature can have wide discretion at every phase of the policy process. Still in the closed rule designs, there is no provision for amendments, and in still others the amendment process can be regulated by the legislature's gate-keeping rules. In some countries, there is a take-it-or leave it rule, in which the amendment process is cut off at the beginning of the legislative process.

In sum, several distributional patterns of the legislative powers are possible. In the first pattern, the legislative powers (both proactive and reactive) can be concentrated in the executive. In this scenario, the executive appears to be independent of the legislature and controls the legislative process. Without considering any intervening variables, a liberal executive should be able to legislate radical, equitable privatization policy.

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<sup>39</sup> Cited in John M. Carey and Matthew Soberg Shugart, "Institutions and Public Policy in Presidential Systems": Center for the Study of Democracy University of California, Irvine, 1997. p.16.

<sup>40</sup> Stephan Haggard and Matthew Shugart, "Institutions and Public Policy in Presidential Systems" in Stephan Haggard and Matthew D. McCubbins eds. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000) p. 77.

In the second pattern, the legislative powers are distributed so that the president holds the proactive powers including decree with the force of law and the legislature can respond through its reactive powers. The executive can move independently using decree power. But the executive also can engage in negotiated bargain with the legislature where decree power is restricted by the constitution. In this scenario, the likelihood is that privatization will be legislated, but the degree and kind of change will be less radical and equitable.

In the third pattern, the executive is weak by virtue of several possible configurations of the legislative powers. The executive can have a weak veto, no decree, legislative initiation but shared with multiple actors. The parliament holds proposal power, controls the parliamentary agenda, and has full discretion over the use of its amendment powers. In this scenario, the executive is unlikely to force its vision of radical change upon parliament. The degree and kind of change can become manipulated by the multiple partisan forces in parliament, thus the likelihood is that privatization legislation will be slowed down and lend to particularistic policies.

The following hypothesis can be drawn from the above discussion.

H2: The transformation of property regimes is most likely in centralized power configuration where executive actors can draw upon both proactive and reactive legislative especially the agenda setting, decree, and veto powers. In particular,

- More centralized executive institutions controlling the legislation of privatization policy should be associated with a greater degree of change and with the kind of change that promotes the general will over particularistic interests.
- As the legislative powers become decentralized, the lesser the degree and kind of change making privatization programs likely to rest on design elements that sustain large portions of socialized ownership and benefit particularistic interests.

## **F. The Joint Effects of the Distribution of Legislative and Non-legislative Powers**

So far, I have established the two preconditions that are necessary for an executive to be considered powerful, moderately powerful, or weak. The non-legislative powers and legislative powers as discrete sets of policy instruments are interpreted as coercive resources or instrumentalities to achieve the executive's policy agenda. The relationship between the constitutional distribution of powers, executive activism, and radical privatization policy is modeled as a direct cause and effect regarding each discrete case of law making. In other words, a linear, bivariate correlation is developed and tested for policy effects.<sup>41</sup> The few multivariate large-N studies of the postcommunist countries that have been conducted also produced a negative relation given a number of other control variables.<sup>42</sup>

Taking the institutional analysis of policy outcomes one step further, it is reasonable to suggest that the asymmetry (symmetry) between the two sets of powers can result in different patterns of executive and legislative relations (the modes of interactions). There are four possible patterns: (1) the executive dominates parliament; (2) the parliament dominates the executive; (3) the parliament and executive are balanced but power is diffused; and (4) both the executive and legislature are powerful.<sup>43</sup> Modeled as intervening variables, each of these patterns can be

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<sup>41</sup> The findings of these studies have been contradictory yielding both positive and negative relationships. See Stephen Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995) for the argument that executive power in transiting countries in particular is necessary as a coordinating mechanism; The case findings in R. Kent Weaver and Bert A. Rockman *Do Institutions Matter?* (Washington, D.C.: The Brookings Institution, 1993), generally yield a positive relationship between centralized power structures. Juan Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South American and Post-Communist Europe* (Baltimore and London: Johns Hopkins Press, 1996) used the presidential and parliamentary divide as their referent; powerful presidencies proved inimical to reform (in postcommunist Europe and South America) while parliamentism in Southern Europe offered them greater degrees of freedom.

<sup>42</sup> Herbert Kitschelt, "Constitutional Design and Postcommunist Economic Reform," November 1999; Joel Hellman "Constitutional and Economic Reform in Postcommunist Transition," *East European Constitutional Review*, Vol. 5, No. 1 (1996) pp. 46-57.

<sup>43</sup> Paul Pennings "Parliamentary Control in of the Executive in 47 Democracies" paper presented at the 28th joint session of Workshops at the European Consortium for Political Research April 14-19, 2000.

explored for the ways they generate different institutional incentives that structure the potential for executive activism by shaping the strategic behavior of each branch.

In further developing the executive powers argument, the constitutional powers are interpreted through positive theory. The constitutional power distribution is evaluated not only as a set of rights or instrumental influence over policy making but also for its effects in setting the rules of the game. Policy-making is envisioned as sequential decision making in an overall process of bargaining..<sup>44</sup> The distribution of influence among institutional policy makers becomes linked to lawmaking as sequence of proposals and acceptance, rejection, or counterproposal (Baron & Ferejohn, 1989; Romer & Rosenthal, 1979). Institutional policy actors are further designated as agenda-setting, policy deciding, and policy-blocking depending on the distribution of legislative proactive and reactive powers.

For instance, in one stylized scenario, the executive is the focal pivot for policy change while legislative institutions comprise the opposition to change. If the executive is the most liberal actor while parliament is more conservative, policy change may come as a result of the executive circumventing parliament if empowered to do so. In this formulation, executive power is analyzed for its strategic as well as instrument value in a sequence of decisions to achieve the desired policy change. Thus, it is not only that the executive is dominant over parliament, the repertoire of powers available to each branch also assumes importance in terms of setting up the expectations and moves of policy actors.

In the first pattern, the executive is dominant over parliament by virtue of the concentration of the executive and legislative powers. This pattern can appear as super presidencies as in the former Soviet Union or Latin American or the Westminster parliamentary

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<sup>44</sup> John M. Carey, "Parchment, Equilibria, and Institutions" *Comparative Political Studies* Vol. 33 No. 6/7 (August-September 2000) pp. 735-761; Daniel Diermeir and Keith Krehbiel, "Institutionalism as Methodology," May 23, 2002.

systems such as Great Britain and New Zealand. As a consequence of the concentration of power, the executive controls policy and accountability. Intuitively, the consequence of this asymmetrical pattern between executive and legislative relations should be ease in changing policy. But such highly centralized structures also can be the institutional cite of clientelist appeals and patronage policies in which executive supporters are rewarded with preferential property shares. Questions also can arise regarding how executive-relations relations manifest over time. Since privatization policy making occurs through multiple decisions or in repeated play, research has shown that executive dominance can be mediated through parliamentary oversight and procedures. In addition, perceptions of the perceived success of executive dominated policy making may evoke a parliamentary activism using the policy instruments available to it.

The second pattern or assembly government is rare; in this configuration the parliament dominates the executive.<sup>45</sup> Assembly government is associated with France's Fourth Republic. In the postcommunist countries, Bulgaria and Romania fall into this category.<sup>46</sup> The executive lacks decree power, agenda control, and an effective veto. Parliament can assert its authority through its power of legislative enactment in which it holds the primary instruments of agenda control and rights of proposal. In addition, parliament can hold the executive accountable through the no-confidence mechanism or the president through impeachment. The problem with this configuration is that in multiparty parliaments, collective action dilemmas may arise. Without an executive strong enough to force action, the assembly must rely on its own ability to overcome collective action dilemmas within its ranks of diverse political parties to initiate

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<sup>45</sup> See Giovanni Sartori, *Comparative Constitutional Engineering: An Inquiry into Structures, Incentives, and Outcomes* (Washington Square, New York: New York University Press, 1994) pp. 110-11 for the problematics of this configuration.

<sup>46</sup> Jon Elster, "On Majoritarianism and Rights," *East European Constitutional Review* vol. 15 no. 3 (Fall 1992) pp. 19-25.

radical policy change. Given the multiple veto points found in parliamentary structures, policy change is more likely to sustain the policy status quo.<sup>47</sup>

The third pattern assumes an even distribution of both non-legislative and legislative powers across the branches. Institutional incentives may permit fairly cooperative relations between the two branches. The parliament may be able to draw upon non-legislative powers such as the appointment of the prime minister, no-confidence measure, or impeachment over the president. The executive may hold appointment and dismissal powers in which the incumbent may or may not be limited by parliamentary investiture, but if the executive has dissolution powers, they are usually weak or highly restricted.

The legislative powers also are evenly divided so that there is little incentive for the executive to attempt to impose his/her will upon the legislative process; the incumbent may have strong proactive agenda-setting powers and some veto through the presidency, but he/she does not possess decree powers with the force of law. The parliament controls policy through majority votes as it enacts statutes. The parliament may also have some discretion over proposal rights, but it is limited. Moreover, the amendment process may or may not be streamlined, it gives parliament some voice in the final shape of legislation.

In a sequential decision-making process, it is expected that both branches will be induced into negotiated bargaining. The policy costs may be low since the level of conflict is dampened. The legislative branches has little incentive or means to capture its optimal policy bargains using high cost and highly risky strategies such as deploying the no-confidence mechanism.

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<sup>47</sup> See Manfred Schmidt “The Impact of Political Parties, Constitutional Structures, and Veto Players on Public Policy”, in Hans Keman ed. *Comparative Democratic Politics: A Guide to Contemporary Theory and Research*. (London, Thousand Oaks, and New Delhi: Sage Publications 2002). pp. 179-180.



Finally, in the fourth pattern, both parliament and the executive are strong. The executive if it is a presidential system may be strong because the incumbent has both strong proactive and reactive legislative powers including decree with the force of law. If the chief executive does not have reactive powers, there may have a strong incentive to legislate by decree. The executive also possesses some non-legislative powers, but here the parliament may hold the advantage. In this scenario, the executive may control policy, but the legislature may control the survivability of an executive even if the office bestows a fixed term.<sup>48</sup>

Therefore, in a sequential model of decision making, in which both actors seek to maximize their constitutional powers, policy change may be accomplished through decree or by legislative statute.<sup>49</sup> The president may have a strong incentive to use decrees to legislate privatization, especially if parliament is perceived to conservative or hostile. If the president is constrained by constitutional or other provisions requiring legislated statute, he also may do so along the principle of contingent consent. But either way the distributive costs of policy may be high, depending on executive and legislative interactions in previous rounds. There is an increased likelihood of high-stakes brinksmanship if parliament is excluded at an earlier phase of decision making. Parliament drives up the distributive costs of policy through threats of removal from office.

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<sup>48</sup> John M. Carey and Matthew Soberg Shugart, "Institutions and Public Policy in Presidential Systems" Center for the Study of Democracy University of California, Irvine, 1997.

<sup>49</sup> Thomas F. Remington, "Law-Making and the Separation of Powers in Russia" unpublished paper, January 28, 2001.

From this discussion of the four types of power distribution that considers the joint effects of non-legislative and legislative powers as a constraint on the exercise of executive power, the following hypothesis can be drawn.

H3: The transformation of property regimes is most likely in asymmetric power distributions where executive actors control both legislative and non-legislative powers or in evenly distributed power configurations. In particular,

- More centralized executive institutions or even distributions of powers between the two branches should be associated with a greater degree of change and with the kind of change that promotes the general will over particularistic interests.
- As the distribution of powers asymmetrically favors the parliament or results in the concentration of legislative powers in the executive and non-legislative powers in the legislature: the lesser the degree and kind of change making privatization programs likely to rest on design elements that sustain large portions of socialized ownership and benefit particularistic interests.

## **G. Bicameralism, Federalism, and Judicial Review**

Another strand of the institutional literature holds that legislative versus executive control theories are not useful unless situated in a larger institutional framework.<sup>50</sup> Constitutional power can also be separated through the presence of bicameralism, federalism, and constitutional courts. Centralized executive power also can be constrained by one or all of these institutional features.

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<sup>50</sup> Gary W. Cox and Matthew D. McCubbins "The Institutional Determinants of Economic Policy" in Stephan Haggard and Matthew D. McCubbins eds. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000) pp. 21-63; Manfred Schmidt, "The Impact of Political Parties, Constitutional Structures, and Veto Players on Public Policy," in Hans Keman ed. *Comparative Democratic Politics: A Guide to Contemporary Theory and Research*. (London, Thousand Oaks, and New Delhi: Sage Publications, 2002) pp. 166-184; Sven Steinmo, Kathleen Thelen, and Frank Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992); R. Kent Weaver and Bert A. Rockman *Do Institutions Matter?* (Washington, D.C.: The Brookings Institution, 1993).

Bicameralism divides legislative powers between the a lower and upper house; both to varying degrees have approval power over legislation. Depending on the distribution of power, the upper house can become a veto actor or can act as a break on the more democratically elected lower house. Often, however, the powers of the second chamber are subordinate to the first chamber or lower house, so that vetoes made by upper house can be easily overridden by the lower. Strong bicameralism as defined by Arend Lijphart requires that "the houses are 'incongruent' in composition." Incongruent means that the second chamber represent minorities. Additionally, both houses are symmetrical or have strong equal powers.<sup>51</sup> Under conditions of strong bicameralism, the equal power distribution implies that policy change cannot take place without agreement of all institutional actors.

William Riker (1975) defines federalism as a "form of political organization in which the activities of the government are divided between regional governments and a central government in such a way that kind of government has some activities on which it makes final decisions."<sup>52</sup> Federalism often is accompanied by strong bicameralism, as institutions that jointly decentralize

In sum, federalism, bicameralism, and the provision for a constitutional court each can be considered as a limitation on executive power. Cox and McCubbins (2000) argue that federalism, bicameralism, and judicial review constrain executive action and inhibit policy change by creating intergovernmental veto points.<sup>53</sup> In a cross-national study of parliamentary control, Pennings (2000), finds that the division of power between the states and the central government can pose barriers to the executive acting autonomously. Fritz Scharpf (2000) links multiple

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<sup>51</sup> William H. Riker, "Federalism," in Fred I. Greenstein and Nelson Polsby, eds., *Handbook of Political Science Vol: Governmental Institutions and Processes* (Readington, Mass.:Addison-Wesley. 1975) p. 101

<sup>52</sup> Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Democracies* (New Haven and London, Yale University Press, 1984). p. 170.

<sup>53</sup> Gary W. Cox and Matthew D. McCubbins "The Institutional Determinants of Economic Policy Outcomes" in Stephan Haggard and Matthew D. McCubbins ed. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000) pp. 21-63.

institutional sources of policy authority with policy fragmentation. Scharpf proposes that such multi-actor constitutions not only limits unilateral action by a single actor but also increases the potential for "mutually inconsistent policy choices."<sup>54</sup>

Thus, from the above discussion the following hypothesis can be drawn.

H4: The transformation of property regimes is most likely in centralized states or where centralized executive power can offset the effects of fragmentation. In particular,

- More centralized state power should be associated with the greater degree of change and with the kind of change that promotes the general will over particularistic interests.
- As state power is decentralized, the more constrained executive power, the degree and kind of change decreases making privatization programs likely to rest on design elements that sustain large portions of socialized ownership and benefit particularistic interests.

## **1. Summary: Constitutional Powers Theory**

Constitutional powers theories posit a direct relationship between powerful executives and policy outcomes. As summarized in H1 and H2, constitutional powers are viewed as instrumental policy making resources. Policy outcomes can be deduced from the power-wielders. At the majoritarian end of the powers continuum constitutional authority is concentrated in the executive. The more the non-legislative powers are concentrated in the executive, the greater independence of the executive from the legislative branches. The executive controls his/her own accountability. Likewise, the more legislative powers are concentrated in the executive, the executive can impose its policy preferences upon parliament.

Using this model to comparatively predict policy outcomes in Russia, Hungary, and Czechoslovakia would lead to the following ranking using the majoritarian and consensus power distribution as a guide. In terms of the degree of change, Hungary would be high, Russia moderate, and Czechoslovakia, low. But, as the findings in comparative section will illustrate, the observed outcomes reverse the ranking. Czechoslovakia with its consensual institutions

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<sup>54</sup> Fritz Scharpf, "Institutions in Comparative Policy Research," *Comparative Political Studies* vol 33. No. 67 (August/September 2000) p. 778.

outpaced both Russian and Hungary; Russia also produced significantly higher levels on the degree of change variable than Hungary in the time frame under consideration.

Positive theories of institutions improve on the simpler model by suggesting that executive power is not unlimited even within a highly concentrated constitutional structure. The relationship between executive power and the degree and kind of property change may be mediated by other institutional variables; thus the relationship is not a direct one. Powerful executives may be limited if even if they possess unlimited decree authority. Or they may be limited if they must contend with multiple institution actors who hold veto power on executive decision making such as a powerful constitutional court. The theory also opens up the possibility that decentralized institutional configurations are equally efficient in generating policy change depending upon the relative distribution of the legislative and executive powers. These possibilities offer a possible explanation for the disparity in the ranking of countries described above.

### **III. The Unity of Purpose and Partisan Theories of Policy Change**

In developing my argument in the previous sections, I explored how the institutions influence policy change through the “distribution of constitutional powers.” The transformation of property regimes was examined as a function of instrumental and strategic power resources available to leaders. Fundamentally, these theories conceptualize radical reform as a process being decided and imposed from above. In this section, I use concept of “unity (separation) of purpose” to explore theories that considers the broader political context and actors who may shape policy reform. As developed by McCubbins et al (2000), purpose refers to unity of action premised on the shared preferences, interests or motives, among diverse political actors.<sup>55</sup>

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<sup>55</sup> Stephan Haggard and Matthew D. McCubbins “Introduction: Political Institutions and the Determinants of Public Policy,” in Stephan Haggard and Matthew D. McCubbins eds. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000) pp.5-8.

Under democratic decision rules, unity of purpose is a concern for two reasons. First, policy decisions mostly require simple majority voting in parliament; the collective decision is an aggregation of the participants. As a country democratizes, numerous actors can enter into the policy process through lobbies, political parties, and interest groups. Clientelist channels left over from the previous regime also provide access for interests within the state such as the ministries and officials who governed state enterprises.<sup>56</sup> For researchers interested in the variation of privatization strategy and distributive outcomes among postcommunist transition countries, interest group theory appeared to be a persuasive argument to explain the cross-national variation in policy performance.<sup>57</sup>

In the privatization literature, scholars interested in the effects of the pluralist democratic setting turned to stakeholder theory.<sup>58</sup> Various hypotheses were put forward regarding the potential opposition to privatization.<sup>59</sup> Stakeholders included various actors who could assert property rights. Research has focused on their ability to defend their claims and influence collective decision making. The criteria for strong stakeholders was based on their relative organizational and positional strength within and outside of the state. However, several cross-national research studies have examined the relative importance of opposition to reform from enterprise managers, business and entrepreneurial associations, as well as labor

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<sup>56</sup> Herbert Kitschelt, "Constitutional Design and Postcommunist Economic Reform," unpublished paper, November 1999, pp.5-7.

<sup>57</sup> Joan Nelson, John Waterbury and Stephan Haggard, eds. *Fragile Coalitions, The Politics of Economic Adjustment*. (New Brunswick: Transaction Books, 1989); Joel Hellman, "Winners Take All: The Politics of Partial Transformation in Postcommunist Transitions" *World Politics*, Vol. 50 No. 2, 1998 pp. 203-234

<sup>58</sup> Andrei Shleifer, and Daniel Treisman *Without a Map: Political Tactics and Economic Reform in Russia* (Cambridge, MA: MIT Press, 2000); Roman Frydman, Andrzej Rapaczynski, and John S. Earle, *The Privatization Process in Russia, Ukraine, and the Baltic Republics*, (Budapest: Central European University Press, 1993); Maxim Boycko, Andrei Shleifer, and Robert Vishny *Privatizing Russia* (Cambridge, The MIT Press, 1995).

<sup>59</sup> Lazlo Bruzt and David Stark, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge: Cambridge University Press, 1998)

organizations and unions.<sup>60</sup> Industrial and labor organizations varied cross-nationally, in terms of their relative strength on indicators such as membership, organizational structure, and resources; most proved too weak to have had systematic influence on policy decisions.<sup>61</sup>

To explain the variation in legislative performance, policy implementation, and insider privatization, many have turned to Joel Hellman's (1998) theories of partial reform.<sup>62</sup> In Hellman's formulation, the logic of stakeholders remains central to the policy outcome. Stakeholders are expected to limit further reform following the initial sequence of privatization. In partial reform theory, these groups have had time to regroup and become strong by the rents they have extracted during the early phase of privatization. Hellman's approach offers a persuasive and important theory to understand the role of rent-seekers, and their development into powerful lobbies designed to protect earlier gains. However, the theory neither explains the earlier phases of privatization decisions, nor does it specify the institutional context in which we might be more likely to observe partial reform dilemmas (Frye, 2001).

Turning to institutional explanations, the role of stakeholders and interest groups are evaluated as socioeconomic actors within the new constitutional order.<sup>63</sup> The new institutions of governance, but also the new electoral regimes are expected to circumscribe their role and access to policy decision making. Political parties become prominent actors in these theories as the

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<sup>60</sup> For instance, see Eric Hanley "Cadre Capitalism in Hungary and Poland: Property Accumulation Among Communist Elites" *East European Politics and Societies* Vol.14 No.1 Winter 2000 pp.143-78;

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<sup>62</sup> Joel Hellman, "Winners Take All: The Politics of Partial Transformation in Postcommunist Transitions" *World Politics*, vol. 50 no. 2, 1998 pp. 203-234.

<sup>63</sup> Ellen Immergut, "The Rules of the Game, the Logic of Health Policy Making in France, Switzerland and Sweden," in Sven Steinmo, Kathleen Thelen and Frank Longstreth eds. *Structuring Politics* (Cambridge, Cambridge University Press, 1992) pp. 57-90; Elmer Shattschneider, *Politics, Pressures, and the Tariff: A Study of Free Private Enterprise in Pressure Politics as Shown in the 1939-30 Revision of the Tariff* (Hamden Connecticut, Archden Books, 1963).

intermediary between interests and the decision making process; political parties also become the allies or protagonists of reform-minded governments.<sup>64</sup>

Here the second dilemma related to the unity of purpose argument becomes relevant; it concerns the decision making process itself. Attaining collective decisions in new legislatures is considered problematic. Depending on institutional designs, decision making may be shaped by the type of government and its partisan composition.<sup>65</sup> Closely related, parliamentary settings vary greatly in their characteristics.<sup>66</sup> For instance, in fragmented parliaments, populated by many parties, divided by multiple issues and orientations towards policy, and unstable as parliamentary fractions and parties suffer defections, collective action dilemmas often arise. In parliaments with weak parties and weak committees, finding legislative majorities among the diverse groups to enact important transition agendas may be difficult to construct.

Several research studies have proved useful in examining the electoral and partisan elements of the institutional setting and comparing decision making within single cases over time and for cross-national comparison.<sup>67</sup> In Russia, longitudinal research on party system formation has offered significant evidence regarding the changing nature of the parliamentary setting.<sup>68</sup> These scholars also have linked the variation in legislative context -- as defined by

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<sup>64</sup> Gary W. Cox and Matthew D. McCubbins "The Institutional Determinants of Economic Policy Outcomes" in Stephan Haggard and Matthew D. McCubbins eds. *Presidents, Parliaments, and Policy* (Cambridge: Cambridge University Press, 2000) pp. 21-63.

<sup>65</sup> Single or minimum winning governments, coalition government, grand coalitions, minority governments, and presidential government.

<sup>66</sup> Lawrence C. Dodd, *Coalitions in Parliamentary Government* (Princeton, New Jersey: Princeton University Press, 1976).

<sup>67</sup> Thomas F. Remington, Stephen S. Smith, D. Roderick Kiewiet, and Moshe Haspel, "Transitional Institutions and Parliamentary Alignments in Russia: 1990-1993," in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) pp. 159 -180.

<sup>68</sup> See Jerry F. Hough "Legislative Structure and Party Development," in Jeffrey W. Hahn ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk, NY: M.E. Sharpe, 1995) pp. 83-105; Thomas F. Remington, Stephen S. Smith, D. Roderick Kiewiet, and Moshe Haspel, "Transitional Institutions and Parliamentary Alignments in Russia: 1990-1993," in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe*



ideological distance, issue dimensions, and the nature of legislative majorities -- to legislative productivity.<sup>69</sup> Research on privatization in Czechoslovakia also has considered the partisan makeup of the Federal Assembly during 1990 to 1993 to account for the government's ability to influence legislative decisions.<sup>70</sup> In Hungary, attention has been paid to the electoral system and the manufacture of legislative majorities as a decisive feature of the politics of privatization.<sup>71</sup> Others have looked at the coalition dynamics of the Hungarian government to explain its restitution policies.<sup>72</sup> In another vein, the policy positions on privatization of the various parties in parliament and their relative strength have been investigated as a source of policy shifts when governments change.<sup>73</sup>

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(Boulder CO: Westview Press, 1994) pp.159 -180; Mikhail G. Myagkov, and D. Roderick Kiewiet, "Czar Rule in the Russian Congress" *Legislative Studies Quarterly*, Vol. 21, February 1996, pp. 5-38; Mikhail Myagkov, Peter Ordeshook, and Alexander Sobyanin "The Russian Electorate, 1991-1996," *Post-Soviet Affairs*, Vol. 13, No. 2 1997 pp. 134-66.

<sup>69</sup> Herbert Kitschelt, Zdenka Mansfeldova, Radoslaw Markowski, and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Inter-party Cooperation*, (Cambridge: Cambridge University Press, 1999).

<sup>70</sup> See Mitchell Orenstein, *Out of the Red: Building Capitalism and Democracy in Post-communist Europe* Yale University Doctoral Dissertation 1996; Frantisek Turnovec, "The Political System and Economic Transition, in Jan Svejnar ed., *The Czech Republic and Economic Transition in Eastern Europe* (San Diego, CA: Academic Press, 1995) pp.; Brad A. Helicher, "Klaus's Middle Game: Repercussions of Privatization and Democratization in the Czech Republic," in Donald M. Hancock and John Logue, eds., *Transitions to Capitalism and Democracy in Russia and Central Europe: Achievements, Problems and Prospects* (Westport, Connecticut and London: Praeger, 2000) pp. 155-181.

<sup>71</sup> Lazlo Bruszt, and David Stark, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge: Cambridge University Press, 1998).

<sup>72</sup> Ellen Commisso, "Legacies of the Past or New Institutions: The Struggle over Restitution in Hungary" in Beverly Crawford and Arend Lijphart eds. *Liberalization and Leninist Legacies: Comparative Perspectives on Democratic Transitions* (Berkeley, University of California Press, 1995) pp. 184 to 228.

<sup>73</sup> Jason McDonald, "Transition to Utopia: A Reinterpretation of Economics, Ideas, and Politics in Hungary 1984-1990" *East European Politics and Societies* vol. 7 no. 2 Spring 1993 pp. 203-239; Mihály Laki, "Economic Programs of Ex-Opposition Parties" *East European Politics and Societies*, vol.5 no.1 1991 pp.73-92; Ákos Róna-Tas, "The Selected and The Elected: The Making of the New Parliamentary Elite in Hungary," *East European Politics and Societies* no. 3 Fall 1991 pp. 357-393; David L. Bartlett, "The Political Economy Privatization in Hungary," *East-European Politics and Society*, Winter 1992 pp 73-118.

Since this research appears promising as a means to explain privatization in diverse democratic settings, my adaptation of the “unity of purpose” concept derives from theories of policy reform that focus on electoral institutions, party system formation, and legislative coalition politics. I draw on coalition theories that streamline the explanation by linking electoral rules, party system characteristics, and the potential for legislative majorities.

### **A. The Partisan Theory and Model**

Kitschelt et al’s (1998) comparative approach to party development appears particularly pertinent and useful as a guide to theorize the role of party systems, electoral institutions and effective democratic governance. Effective governance in Kitschelt’s theory consists of collective decision making in legislative institutions, the policy outputs and the improvement of the life’s chance of the population.<sup>74</sup> In their research on party system formation and competition, the authors developed a framework for the relationship between partisan conditions, coalitions and legislative productivity in four postcommunist countries - Bulgaria, Hungary, Czechoslovakia, and Poland.

To legislate radical reforms, Kitschelt et al. (1998) posits inter-party cooperation as a necessary condition for forming legislative majorities.<sup>75</sup> Inter-party cooperation is defined as the ex- ante willingness or disposition of political parties populating the legislature to form stable enactment coalitions.<sup>76</sup> Parliamentary conditions, fragmentation, polarization (issue distance) and the type of issue divides or dimensions are crucial to predicting the likelihood of winning policy coalitions.<sup>77</sup>

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<sup>74</sup> Herbert Kitschelt, “Constitutional Design and Postcommunist Economic Reform,” unpublished paper November, 1999.

<sup>75</sup> Herbert Kitschelt, Zdenka Mansfeldova, Radoslaw Markowski, and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Interparty Cooperation*, (Cambridge: Cambridge University Press, 1999) pp.345-348.

<sup>76</sup> Ibid. p.345..

<sup>77</sup> Ibid. p.346.

External to the parliamentary setting, Kitschelt et al.(1998) argue that another key variable worth exploration is the presence of a powerful president (executive). Like high levels of fragmentation and polarization, the powerful executive variable is posited to have a negative relationship to inter-party cooperation and coalition building. In addition, the authors factor in legacies from the communist past (anti-communist) as a regime divide variable that depresses inter-party cooperation. The model can be diagrammed as follows:



At the outset it is important to note that I depart from Kitschelt's (1998) theory in that I do not incorporate communist regime legacies in the form of a regime divide. Kitschelt defines the regime divide as attitudes held by parties toward the former communist regime. Intense anti-communist sentiment is expected to preclude parties from forming legislative coalitions. My analysis instead relies on policy distance (Dodd, 1976, Warwick, 2000 ) and the presence of anti-system parties (Sartori, 1976) as a proxy for antagonism based on the Soviet past to assess the willingness of parties ex-ante to form coalitions. I also do not directly deal with strong presidents or executives although for future research they constitute a crucial linkage between the constitutional and electoral levels of institutional analysis. However, I do include public and parliamentary negative responses to executive decision making as an issue dimensions that may shape the political competition.

## **B. The Institutional Mechanism and Its Determinants**

Following Kitschelt's (1998) theory, my argument to explain the degree and kind of property change also begins with the parliamentary setting and capacity to legislate through stable majorities. In parliament, a bill is passed or rejected by a parliamentary vote. If the government is to enact its legislative agenda, it must gain the support of the parliamentary majority. In countries that opted for majoritarian electoral systems, the disproportionality of the system manufactures legislative majorities. In many postcommunist countries, the choice of more proportional formulas and multiparty parliaments means this majority must be built through a combination of votes from more than one party. Countries thus are differentiated by their demand for inter-party cooperation. Inter-party cooperation becomes discounted when majoritarian systems regularly deliver legislative majorities. The demand increases in countries that have multiparty parliamentary settings.

My argument begins with electoral rules since they determine the demand for inter-party cooperation. The type of electoral system determines whether the party system will be two-party, multiparty, or extreme types of multiparty systems. The formula for translating votes into seats determines the proportionality or whether the electoral system will manufacture legislative majorities or create the demand for inter-party cooperation to enact privatization.

Party system characteristics that in part arise from the choice of electoral system, serve as intervening variables. Party system characteristics represent initial conditions that are more or less favorable for filling the demand for inter-party cooperation with a supply of legislative coalitions that can comprise a majority in parliament. Crucial to structuring the parliamentary setting are fragmentation and polarization. To these, I add intra-party stability which indicates the potential for party or factional transformations through defections, mergers, and changes in

identity. In the postcommunist context, instability in membership and identity contributed to realignments along conservative or reformist lines.

Collectively, these party system characteristics differentiate variation in parliamentary settings. Polarization reflects the willingness of parties to enter into coalition. Fragmentation further defines the parliamentary setting by the number of parties in the system; the fewer the parties the greater certainty there is regarding the strategic of a parties as they seek coalition partners. Intra-party stability serves to indicate inherent volatility (changes in size and identity) that can result in major structural shifts in ideological direction. Thus these three variables serve as a predictor of coalition potential and the type of coalitions that may form. The resulting thesis can be diagrammed in the following manner:

**Electoral rules → Parliamentary Party System → Inter-party Cooperation = Property Regime Change**  
**Coalition Potential**

In the following section, I develop the hypotheses that will guide the empirical research. I begin with the choice of electoral rules as a guide to manufactured majorities and the demand for inter-party cooperation. Then the supply side of the argument is developed by positing the linkages between varying levels of fragmentation, polarization, and intra-party stability and coalition potential. Finally, the linkages are drawn between the types of coalitions that are possible in a given party system, legislative productivity, and the distributive implications of privatization policy.

### **C. Electoral Rules and the Demand for Inter-party Cooperation**

Majoritarian and consensual electoral rules shape the probabilities for policy change by offering two different strategies for effectively constructing legislative majorities. Majoritarian single member district plurality rules (in parliamentary systems) or the German additional member system are designed to centralize power among a few, large political parties.<sup>78</sup> Disproportional electoral outcomes exaggerate the share of seats for the leading party, while simultaneously penalizing minor parties. Thus, manufactured majorities are likely as the optimum strategy for legislating the transition agenda.

Consensual electoral system decentralize power among multiple political parties. Proportional representation electoral systems diffuse power by mechanisms that distribute the seats in parliament equal to the percentage of votes the parties receive in the election. Proportional representation rules are designed to ensure that parties with even modest votes gain a proportionate share of seats. Therefore, the executive is unlikely to gain control of the legislature through his/her party. Only fairly broad coalitions of parties can gain such control.

In presidential systems, if the president's party wins the majority of seats in parliament, majoritarian effects can arise from single member district rules and the two-party system. The president is given much more leverage to govern like a British prime minister. With a legislative majority, it would be expected that the president could more easily legislate radical reforms with lowers levels of distributive effects. Single member district rules, however, are equally likely to give the opposing party large wins. In this case divided government becomes the likely scenario in which the two branches may be distant in their preferred responses to social problems that require radical reforms.

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<sup>78</sup> Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Democracies* (New Haven and London, Yale University Press, 1984).

To summarize, the formula for translating votes into seats determines the disproportionality, the disparity between the votes received and seats allocated. Majoritarian single member district plurality rules are associated with two party systems and single party or minimum winning coalition governments. Radical reforms are legislated through manufactured majorities. Since inter-party negotiations are not necessary to constitute a majority; property reforms should widely diffuse distributional benefits.

Pure proportional representation systems are associated with multiparty systems and coalition governments. In parliamentary or presidential systems, the executive does not govern with a ruling majority party in parliament.. In this case, legislative passage is contingent upon building coalitions of support so demand for inter-party cooperation is high. However, as the discussion below indicates, the degree and kind of property change stems not only the demand, but also the supply of coalitions and type of coalitions.

One could stop here and use the majoritarian and consensual divide to make predictions regarding the likelihood of radical, equitable property reform. Majoritarian rules would define one end of the spectrum, the Westminster countries that do not include any postcommunist cases would be most likely to effectively legislate radical property reforms and generate equitable distributive outcomes since legislation would not require cross-party bargaining. Equally consensual formulae would be written off as creating suboptimal outcomes because of delays and negotiations necessary to construct majorities.

But proportional representation rules vary widely and so do the types of multiparty systems that may emerge. In moderate semi-proportional systems, legislative majorities may not be a premium and the winning coalitions may be constructed to encourage radical reforms and low-cost distributive outcomes. Thus it is necessary to take the analysis one more step and examine the conditions that shape the supply of winning legislative winning coalitions.

#### **D. Party System Characteristics, and Coalition Potential**

All of the postcommunist countries with multiparty systems -- in which no party or the government -- had a ruling majority had a high demand for inter-party cooperation to legislate privatization. The extent to which they could promote legislative productivity while keeping the distributive costs of property reform low depended on the supply of inter-party cooperation in the form of stable and enduring legislative coalitions. In this respect, the parliamentary settings varied widely depending on the rules governing the first elections and subsequent party system development.

Following the literature on party system formation, party system characteristics that shape inter-party cooperation include levels of fragmentation, polarization, and stability. I use these as indicators for the unity of purpose index. In part, each of these to more or a greater extent is shaped by the proportionality of the electoral system. The type of proportional electoral system determines the number of parties in the multiparty system. Whether a system is pure or semi-proportional is directly related to levels of fragmentation and intra-party stability. The electoral system also contributed to polarization depending on its filtering mechanism. In postcommunist countries, the exclusion or marginalization of anti-system conservative parties constitutes one indicator for polarization of the party system.

In other words, the less proportional the electoral system, the more likely partisan conditions will be characterized by low levels of fragmentation, depolarization, or low levels of polarization and stable party competition. As discussed below, collectively these conditions are favorable to the formation of not only winning but stable legislative coalitions.



## **E. Party System Characteristics and Parliamentary Settings**

Giovanni Sartori (1976) in *Parties and Party Systems*, represents an early and influential attempt to systematically compare party systems. A party system, as defined by Sartori, is “precisely the set of interactions resulting from inter-party competition.”<sup>79</sup> Sartori argues that categorizing parties by the number of component parties can offer important characteristics of the complexity and internal dynamics of a party system so long as it is supplemented by ideological distance. Thus, following Sartori, two characteristics are considered crucial to how parties relate with one another, the levels of fragmentation and polarization.

### **1. Fragmentation**

Party system fragmentation or fractionalization is defined in terms of the number of parties. A highly fractionalized party system is characterized by a large number of parties that have seats in parliament and these parties are of relatively equal strength. The number of parties is determined by institutional and sociopolitical factors. For instance, proportional representation rules with high district magnitudes and low thresholds for representation, encourages the proliferation of parties. The stability and organizational roots parties have established with the electorate also influences fragmentation.

For Sartori (1976), the number of parties in a system is important since it constitutes an indicator of pluralism or the interaction of parties as they compete. Pluralism refers to intra-party or inter-party processes that are riddled by “disagreement, rivalry, maneuvering and battling.”<sup>80</sup> Pluralistic party systems democratize power, but the level of pluralism also effects the capacity for democratic governance. Sartori argues that two to three parties best facilitate democratic stability. Three to five parties comprise limited pluralism that still permits stable competition

<sup>79</sup> Giovanni Sartori, *Parties and Party Systems* (London, New York, and Melbourne: Cambridge University Press, 1976) p. 44.

<sup>80</sup> Giovanni Sartori, *Parties and Party Systems* (London, New York, and Melbourne: Cambridge University Press, 1976) p. 48.

among parties. By contrast, any number above five -- from six to eight parties indicates extreme pluralism.

Sartori's point is that parties in system characterized by limited pluralism interact very differently than parties in a system in which pluralism reaches the extremes. Coalition theorists beginning with Douglas Rae also have studied party system fragmentation for its effects on coalition potential especially in the formation and stability of governing cabinets in various systems.<sup>81</sup> As applied to the study of policy change, fractionalization has several implications. First, highly fractionalized party systems do not permit the formation of a majority legislative governing party. Second, all policy enactment requires inter-party cooperation and the creation of winning enactment coalitions (coalitions large enough to meet the requirement of 50 percent + for legislative passage). The larger the number of equally sized parties that are required to create a legislative majority, the greater the difficulty since consensus requires cross-party agreements where each party has differing electoral costs and benefits.<sup>82</sup>

Fragmentation also shapes the coalition potential of parliaments, since it can increase information uncertainty. Lawrence Dodd (1976), building on the work of William Riker (1962), argues that the greater the number and relative equality (in voting strength) of parties within parliament, the greater the number of relative party relations that must be observed and considered in the coalition building process. A party leader attempting to follow the various possible bargaining moves made by other parties is faced with a virtually impossible task in highly fractionalized parliament. Given this situation, as the number of relevant parties increases

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<sup>81</sup> Douglas Rae, *The Political Consequences of Electoral Laws* (New Haven: Yale University Press, 1971).

<sup>82</sup> Lawrence C. Dodd, *Coalitions in Parliamentary Government* (Princeton, New Jersey: Princeton University Press, 1976).

within parliament, a decrease should occur in the ability of parties (or party leaders) to follow or to perceive they are following all the moves being made by other parties in the bargaining arena.<sup>83</sup>

Consequently, as party system fractionalization increases, the perfection of information as to moves should decrease. The greater the number of parties that are relevant to the bargaining process, the more difficult it should be to estimate with certainty the reliable strength of the various parliamentary parties. In estimating the relative strength of parties any given party leader must observe the internal party relations of each party, or at least must feel he would be aware of serious internal conflicts.<sup>84</sup> As parliamentary fractionalization increases, consequently the completeness of information as to weights should decrease.

## **2. Polarization**

Giovanni Sartori (1976) defines polarization as ideological distance (in contrast to ideological proximity); it is the spread of the ideological spectrum of a party system<sup>85</sup> Polarization occurs when parties' positions on policy distance are two lateral poles apart, and the distance on policy "covers the maximum spread of public opinion "Cleavages are deep, consensus is low, and political system is widely questioned."<sup>86</sup> In Sartori's (1976) definition one key element is ideological distance. To deal effectively with polarization, however, it is important to know the issue divides that define party competition. For Sartori (1976), policy distance refers to competition in a party system where the parties are competing along a single issue dimension arrayed from the liberal left to the conservative right. The presence (absence) of

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<sup>83</sup> William Riker, *The Theory of Political Coalitions*. (New Haven, CT: Yale University Press, 1962).

<sup>84</sup> Lawrence C. Dodd, *Coalitions in Parliamentary Government* (Princeton, New Jersey: Princeton University Press, 1976).

<sup>85</sup> Giovanni Sartori, *Parties and Party Systems* (Cambridge, London, New York, Melbourne: Cambridge University Press, 1976). p.125

<sup>86</sup> Ibid. p.135

polarization deals with the relationships of parties in a party system and reflects the coalition potential in a parliament.

Following Sartori (1976) and Downs (1957), partisan conflict on a specific issue divide can be depicted on a spatial continuum running from left to right.<sup>87</sup> In coalition theory, the distance between parties on an issue dimension shapes their decisions as they contemplate bargaining to form a policy coalition.<sup>88</sup> The greater the distance, the more parties must compromise on policy if they are to coalesce into a winning policy majority. The greater the compromise, the more difficult it is to justify. Thus, within a given parliament, the a-priori willingness of parties to bargain depends in part on the nature of the conflict over issue dimensions characterizing the party system. When all parties are concentrated in relatively close positions on the issue conflict continuum, an a priori willingness to bargain should be high.<sup>89</sup>

Kitschelt (1998) has built upon Sartori's (1976) conceptualization by considering multiple issue dimensions and schemes other than just the left-right divide. For Kitschelt, the most important additional dimension concerns attitudes of parties toward the previous communist regime. Parties close in policy distance may fail to form coalitions based on anti-communist sentiment. Likewise in their research on the Russian Congress of People's Deputies, Remington, Smith, Haspel, and Kiewett (1994) note that multiple issue dimensions increased general levels of polarization and decreasing legislative productivity geared to implement radical reforms. Schleiter's (2000) research complimented Remington et al's (1994)

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<sup>87</sup> Anthony Downs, *An Economic Theory of Democracy*. (New York: Harper and Row, 1957); Giovanni Sartori, *Parties and Party Systems* (Cambridge, London, New York, Melbourne: Cambridge University Press, 1976).

<sup>88</sup> William Riker, *The Theory of Political Coalitions*. (New Haven, CT: Yale University Press; Lawrence C. Dodd. *Coalitions in Parliamentary Government* (Princeton, New Jersey: Princeton University Press, 1976); 1962); Herbert Kitschelt, Zdenka Mansfeldova, Radoslaw Markowski, and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Inter-party Cooperation*, (Cambridge: Cambridge University Press, 1999).

<sup>89</sup> Lawrence C. Dodd *Coalitions in Parliamentary Government* (Princeton, New Jersey: Princeton University Press, 1976).

findings by noting the ways increased polarization resulting from multiple issue divides in a fragmented parliament decreased the potential for constructing legislative majorities in the Russian Congress of People's Deputies over time.

### **3. Intra-party Instability and Legislative Majorities**

Party system stability refers to the continuity over time of the identity and relative strength of parties within parliament. When the identity and strength of parties is constant or continuous over time, the party system is highly stable. When these attributes vary significantly over time, the party system is unstable. Instability relates strongly to the problem of institutionalization of party systems in post-communist countries especially during the early phases of transition

There is a large literature on party systems in post communist countries dedicated to studying stability since it shapes inter-party behavior in parliament. It seems reasonable to assume that the greater the continuity in the identity and relative strength of parties over time, the greater are the opportunities for inter-party partisan behavior to develop. As party leaders develop greater familiarity with one another and the probable patterns of party competition, coalition building is enhanced since it contributes to the completeness of information. High fractionalization and high instability may activate or augment the potential effects of each. Party leaders must follow maneuvers among a large number of parties with little past behavior to provide a reliable indication of probable parliamentary moves. In such a situation, stable partisan patterns do not exist to depress or defuse the complications created by a large number of parties.

In the postcommunist countries, the interactions between fragmentation and intra-party stability were problematic since parliamentary parties were in constant flux. Defections between and among parties, the rise of new parties, mergers between old ones, and the dissolution of old parties took place as part of the process of party system development. The size of parties

changed, but in some cases parties entirely transformed their identities. In some cases, highly fluid party membership and identity resulted in realignment of the party system.

Ideological realignment across the party system, stemming from defections over time, may not be an entirely negative phenomena for the project of property transformation. In fact, as I show in this dissertation, in Czechoslovakia where party system development followed a path toward consolidation and liberalism, the realignment boosted the overall potential to build a strong coalition of support for its neoliberal program. However, in Russia party system development followed a high uncertain path and remained unconsolidated until the late 1990s. The combination of radical liberal and extreme conservative parties at the poles meant that that fluidity could play either way. In Russia, in combination with the constitutional crisis between parliament and the president, the realignment was marked by a strong shift to the conservative end of the political spectrum along with increasing fragmentation.

In sum, party system characteristics influence the supply of inter-party cooperation through parliamentary coalition potential. Fragmentation, as the number of parties increase, decreases information certainty thus contributing to poor bargaining conditions in parliament. Ideological polarization shapes the ex-ante likelihood that parties might join together in a winning coalition that constitutes a legislative majority. Intra-party stability, concerning the size and identify of parties also predicts the likelihood of coalition formation depending on whether there is a stable rosters of players in the democratic game. The parliamentary setting in one country can vary from session to session. Intra-party stability or volatility of all parties in a system along with levels of polarization also predicts the likelihood of major shifts in the overall ideological alignment of parties in a given system.

Collectively, these three systemic elements of party system characteristics governing the inter-relations of party competition shape the supply for inter-party cooperation. In my analysis these three elements constitute the unity of purpose variable.

From the above discussion, the following hypothesis can be drawn.

H5: The transformation of property regimes is most likely in party systems characterized by low fragmentation, depolarization, and stability of the parties in the game. In particular;

- The more party system development supplies conditions favorable to inter-party cooperation the more likely coalitions will form that constitute a stable legislative majority, thereby the greater degree of change and the kind of change that promotes the general will over particularistic interests.
- As party system development limits the potential for parties to collaborate, coalition potential for forming legislative majorities decrease, and the degree and kind of change decreases making privatization programs likely to rest on design elements that sustain large portions of socialized ownership and benefit particularistic interests.

## **F. Coalition Types**

Following Kitschelt (1998), four types of legislative coalitions are possible depending on the variance in party system characteristics. These include (1) infeasible, (2) crisis coalitions, (3) case-by-case alliances, and (4) stable coalitions. The four types are divided into two sets of sub-categories depending upon whether party dyads are close or distant in the policy space.<sup>90</sup>

Unfeasible and crisis coalitions are most likely between multiple parties distant in the policy space. Kitschelt defines an unfeasible coalition as a case where two parties are distance in policy space; one party is willing to enter into a coalition but the other is not.<sup>91</sup> No coalition forms. Crisis coalitions can emerge when two parties are distant on the policy space on an issue such as economic reform, but become an unlikely alliance on a flash point issue such as presidential powers. Unlikely alliances form as multiple issues increase, polarization surges, and

<sup>90</sup> Kitschelt, Herbert, Zdenka Mansfeldova, Radoslaw Markowski, and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Inter-party Cooperation*, (Cambridge: Cambridge University Press, 1999) pp. 351-353.

<sup>91</sup> Ibid. p.350.

parties are highly fluid in their membership and identity. In general, the more parties in parliament with large policy distances, the fewer possible win sets are present for creating a winning coalition.<sup>92</sup>

Case-by-case temporary alliances and stable coalitions are expected to form between parties close in the policy space. In temporary coalitions, parties share similar policy positions on a single issue, but they are not disposed to form coalitions on all issues.<sup>93</sup> Issue-specific coalitions require cross-party negotiations to attain a legislative majority. Feasible and durable coalitions form when parties are close in the space of salient policy issues and signal a strong willingness to engage in mutual collaboration. In general, the larger the number of parties in parliament that retain their identity and membership, and the closer they are in the policy space, the greater the number of winsets.<sup>94</sup>

To summarize, four types of coalitions are possible given differing levels of party fragmentation, instability, and polarization. Low values on the purpose variable predicts stable legislative coalitions. Intermediate values indicate case-by-case temporary coalitions. As the values increase to reflect conditions such as polarized pluralism, crisis coalitions may form between unlikely groups of parties. At the extremes are unfeasible coalitions; conditions have degenerated to the point that coalitions are unlikely to form.

Returning to the possible strategies for legislative privatization, two strategies are possible depending upon the electoral rules. The degree of privatization policy change is expected to be more radical when majoritarian rules govern party competition and deliver legislative majorities for the government. Likewise, in multiparty systems governed by more

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<sup>92</sup> Kitschelt, Herbert, Zdenka Mansfeldova, Radoslaw Markowski, and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Inter-party Cooperation*, (Cambridge: Cambridge University Press, 1999) pp. 351-353

<sup>93</sup> Ibid. p.352.

<sup>94</sup> Lawrence C. Dodd *Coalitions in Parliamentary Government* (Princeton, New Jersey: Princeton University Press, 1976).



proportional rules, radical policy change will be more likely where there party system characteristics offer the potential for stable legislative majorities through the creation of enduring and feasible coalitions.

Under these partisan conditions, the kind of change -- the adoption of equitable privatization policies -- also is more likely. In legislating through manufactured majorities, the distributive formula can be imposed by the leadership. In legislating through stable coalition majorities, the opportunity is present to construct a grand bargain or pacts. A small number of parties with similar policy preferences may permit a one-time negotiated bargain. Issue-specific coalitions can be problematic; negotiations formed at time 1 can break down at time + 1. The presence of crisis coalitions can open the door for renegotiation and the politics of outbidding. In other words, the more times the legislative proposal is submitted to compromise to find a winning coalition, the more drawn out the legislative process. In addition, the opportunities expand for parties representing economic interests to leverage their distributive demands -- especially if these parties are centrist parties necessary to attain a legislative majority.

From the preceding discussion, the following hypothesis can be formed.

H6: The transformation of property regimes is most likely when party characteristics favor the formation of stable and feasible coalitions. In particular;

- The more partisan conditions favor manufactured majorities and stable coalitions, the more likely there will be a greater degree of change and the kind of change that will promote the general will over particularistic interests.
- The more partisan conditions favor case-by-case coalitions, the degree and kind of change more likely there will be degree of change but the kind of change is more likely to promote particularistic interests over the general will.
- The more partisan conditions favor crisis and infeasible coalition the degree and kind of change decreases making privatization programs likely to rest on design elements that sustain large portions of socialized ownership and benefit particularistic interests.

To summarize, in contrast to democratic theories that focus on the distribution of constitutional power, this section offered a competing theory premised on the distribution of preferences and power among political parties in the party system. Whereas preferences were held constant in the institutional interpretation, the diversity of preferences and interests become central to understanding why or why not the broader political field of political parties and interest groups can coalesce to obtain optimum collective decisions. As such, I used the “unity of purpose” concept to define and operationalize variables related to the government and partisan actor’s capacity to take unified action depending on the ways electoral institutions vary and shape distinctive parliamentary settings.

Unlike previous stakeholder theories that focus on the role of claimants to property and the organizational strength, the ability of these actors to influence privatization policy is examined through their representation by political parties in parliament. As such they become one of many competing parties whose role is more less enhanced by their capacity to find winning coalitions. The new institutions of governance depending upon their design, but also, the new electoral regimes have circumscribed their role.

The purpose variable is defined by well-known party-system characteristics that collectively shape the likelihood the government can construct legislative majorities through stable enactment coalitions in parliament. Premised on the work of Riker (1962) and Sartori (1976), party system characteristics that appear the most important to the enactment of privatization legislation and the variance in parliamentary coalition formations include fragmentation, polarization, and instability.

Following Kitschelt, two hypotheses will guide the empirical research. Hypothesis 5 examines the demand and supply for inter-party cooperation. In party systems that exhibit low levels of fragmentation as well as depolarization, and stability, it is expected that higher levels of legislative productivity and lower cost distributive outcomes will follow. Hypothesis 6 examines the type of coalitions possible under optimum conditions. In party systems that exhibit low levels of fragmentation, depolarization and stability, it is expected that the government can effectively legislate privatization through manufactured majorities or stable parliamentary coalitions.

#### **IV. Chapter Conclusion: Some Predictions**

In the following chapters, the powers and purpose argument will be examined using two research strategies. First, I examine the validity of the hypotheses outlined above through a case study of mass privatization in the Russian Federation. Russia's privatization outcomes are investigated to ascertain whether there is a correlation between the observed outcomes and its nascent form of separation of powers presidentialism. The pattern of power distribution is expected to fall in between majoritarian and consensual categories on the hypothetical continuum of power.

## **A. Distribution of Powers**

In Russia, the special powers granted to the president at the Fifth Congress of People's Deputies was the beginning of powerful presidential and executive institutions. The legislative institutions were comprised of a two-tiered parliament; the Congress of People's Deputies and Supreme Soviet. Constitutionally, the strength of the legislative institutions appeared equal to the executive. H:1 predicts a Russian executive independent from parliament because of the fixed term. Executive independence would be reinforced by the president's (delegated) appointment and dismissal powers. However, the overall concentration of non-legislative powers in parliament present a more ambiguous set of possibilities. H:2 unambiguously predicts that Russia's centralized legislative powers would be associated with a high level of degree and kind of privatization policy outcomes.

Hypotheses three and four change these expectations. H:3 suggests that the asymmetrical powers variable would shape the interactions between the legislative and executive branches in such a way to constrain pure executive power. The degree of change still may be high, but the costs of policy through induced through cooperative bargaining would suggest that the kind of change would be compromised. H:4 suggests further constraints through the presence of several multicameral institutions. Chart 1 below outlines the expected correlation between institutional patterns and policy outcomes.

Second, the distribution of powers framework further is evaluated through applying a comparative perspective. Hungary and Czechoslovakia's institutions are examined through a pairwise comparison.. According to distribution of powers theories, Hungary's majoritarian institutions should facilitate effective governance (rapid initiation and legislation adoption of large-scale privatization). The predicted outcome is premised on the assumption that the constitution conferred upon Hungary's leadership the advantage of a single-actor, strong prime

ministerial system. It is expected that hierarchical decisions facilitate rapid and radical change. The one institutional caveat that may constrain executive power is the presence of the most powerful constitutional court in all of postcommunist Europe. The system of electoral accountability (bias toward median voter) built into Hungary's majoritarian parliamentism means that the kind of change should avoid particularistic policy traps and stress the achievement of national goals designed to deliver public goods to the greatest number of citizens (Scharpf, 2000).

Czechoslovakia is considered a consensual parliamentary democracy. The most striking feature of its institutional pattern was its federal system of government between 1989-1992. Multicameralism also was expressed by the bicameral structure of its legislature and the Czechoslovak Supreme Court which held the power of judicial review. Incumbents of the office of president and prime minister have been viewed as relatively weak in comparison to the other post-communist countries. However, given a balanced distribution of legislative and executive powers between the executive and legislative branches, the highly conflictual politics of privatization is expected to be moderated. Because parliamentary systems have strong-party-building incentives, the political elites are expected to be more responsive to organized social forces.

In accordance with the expectations prescribed in the literature, Czechoslovakia because of its weak executive would be expected to be slower in its ability to legislate privatization, to divest property, and less likely to sustain policy over the long-term. The federal and bicameral arrangements, the dual executive, and coalition governance all predict problems with policy coherence and sustainability. The multiple institutional access points for economic interests to lobby government suggests that the government would have difficulties resisting pressures regarding preferential shares for employees leading to insider privatization.

However, there are several contingencies that may tilt policy outcomes toward a more rapid, radical and equitable response. Thus, the actual strength of the federal arrangements as veto gates and the positive contribution of the balanced distribution of powers between the executive and legislative branches are addressed as empirical questions. Thus, Czechoslovakia is predicted to have moderate to high outcomes regarding the degree of change and the kind of change.

**Chart No 1: Constitutional Powers, Pattern of Executive and Legislative Relations, and Predicted Policy Outcomes**

	<b>Hungary Qualified Majoritarian</b>	<b>Czechoslovakia Moderate Consensus</b>	<b>Russian Federation Hybrid centralized Consensus (federalism)</b>
<b><i>Executive - Legislative Relations</i></b>	Executive Dominance	Balanced Relations	Parliament & Executive strong
<b>Policy Strategy</b>	Large Scale Phase I	Mass Privatization	Mass Privatization
<b>Predicted Policy Outcomes:</b>			
<b><i>Degree of Change</i></b>			
<b><i>Legislation</i></b>	High	Moderate	Low to moderate
<b><i>Property Divestment</i></b>	High	Moderate	Low to moderate
<b><i>Sustainable Policy</i></b>	Moderate/Low	Moderate/High	Low
<b>Kind of Change</b>			
<b>Particularistic Policies</b> (insider privatization)	Low	Moderate	Low
<b>Public-Good Policies</b> (outsider privatization)	High	Moderate	Low

## **B. Predictions -- Unity of Purpose**

Chart 2 below presents the variance in electoral systems and party system development and the pattern of expected outcomes. Countries first are differentiated by the demand for inter-party cooperation. In the postcommunist cases that opted for majoritarian, disproportional formulae, the demand is expected to be lower. The executive leadership is expected to legislate privatization through manufactured majorities.

In the majority of postcommunist cases that opted for some form of proportional representation electoral system, the demand for inter-party collaboration is expected to increase exponentially since no party in the legislature commands a majority. Legislation of privatization laws requires the formation of stable, parliamentary coalitions of support. Coalition theory predicts that the leadership in countries with less pure proportional formulae are more likely construct stable winning coalitions.

Moderately proportional electoral formula ( high threshold requirements) are associated with more favorable parliamentary settings in which there are fewer (less fragmented) parties. If the threshold mechanism eliminates relevant anti-system parties, the policy space among parties is expected to be more concentrated indicating an a-priori willingness to cooperate. In the postcommunist countries, the problem of intra-party instability following the breakup of the movements also is expected to be present but temporary.

**Chart No. 2 Predicted Outcomes: Electoral Rules, Party System Formation, and Coalition Potential**

<b>Electoral Rules</b>	<b>Majoritarian</b>	<b>Moderate PR</b>	<b>Extreme Consensual</b>
<b><i>Party System Characteristics</i></b>	Depolarization	Low to moderate Polarization	Moderate to High levels of Polarization
	Stability	Periodic Instability	Persistent Instability
	Cohesive parties	Moderate Fragmentation	Hyper-fragmentation
<b><i>Predicted Legislative Enactment Coalitions</i></b>	Manufactured Majorities/Stable	Stable coalitions Case by case	Case-by-case to Unfeasible coalitions
<b><i>Degree of Change</i></b>			
Legislation	High	High to moderate	Low
Property Divestment	High	High to moderate	Low
Sustainable Policy	High	High	Low
<b><i>Kind of Change</i></b>			
<i>Particularistic policies</i>	Low	Low	High
<i>Public Good oriented</i>	High	High to moderate	Low

Given this schema, some predictions can be developed for the Russian Federation, Hungary and Czechoslovakia as well as the larger universe of postcommunist cases. The Russian Federation chose single member district rules; the party system development that was followed was multiparty. Because the president never enjoyed a parliamentary majority, the demand for inter-party cooperation is expected to be high. The levels of fragmentation, polarization, and intra-party stability varied. The literature on Russian party system development shows several distinct phases. Thus, it is expected that the opportunities for forming winning coalitions can be found when the levels were low to moderate. But, the variation itself over short periods of time predicts the likelihood of a range of coalition types including stable, case-by-case, and crisis.



Thus, the opportunities for legislating mass privatization were time-dependent, making case-by-case coalitions the most likely type. Although, policy change would be the predicted outcome, it also is expected that the legislative process itself would be encumbered by the need to reconstruct coalitions. The fact that coalition building was an iterated process suggests the costs of policy would increase as distributive issues were given a greater opportunity to develop and to become the basis for coalition support.

Hungary differed substantially from the Russian Federation and the rest of the postcommunist cases. Full-fledged party competition developed early and became the mode of its transition beginning with the May 1990 elections. Hungary's elections were conducted under the mixed additional-member system. The disproportionality of the system means that the ruling party should be able to legislate its transition agenda with manufactured majorities. However, it also has to be noted that Hungary electoral system also created the need for coalition governments. The demand for inter-party cooperation is expected to be lower than most postcommunist democratizing countries, but not nonexistent.

The literature on Hungary's party system development shows that Hungary's party system was multiparty with moderate levels of fragmentation, low levels of polarization (depolarization), and intra-party instability that affected only a small group of parties. Under these conditions, the expected outcome is a rapid pace of legislative adoption of radical privatization strategies. The system of electoral accountability (bias toward median voter) associated with majoritarian electoral system should predict the kind of change that avoids particularistic policy traps and stresses the achievement of national goals designed to deliver public goods to the greatest number of citizens.

Czechoslovakia akin to Russia began its transition with movements instead of parties. Unlike Russia, Czechoslovakia's parliamentary system presented strong incentives for strong

party development. Czechoslovakia conducted its elections through a qualified proportional representation system with strong threshold requirements. Subsequent party development followed a multiparty pattern. Czechoslovakia thus had a high demand for inter-party cooperation to legislate privatization. Fairly consistent moderate levels of fragmentation, polarization, and intraparty stability would predict the possibility of stable coalitions. Some variance did take place and economic reform was a polarizing issue. Therefore, it is also would not be surprising to find case-by-case coalitions to be necessary.

In sum, following the hypotheses and characteristics associated with radical policy change a ranking of the three countries can be constructed. Of the three countries, Hungary and Czechoslovakia fit within Sartori's category of moderate pluralism. Moderate pluralism is considered favorable for party development, democratic stability, and the formation of legislative coalitions. Hungary because of its majoritarian electoral system that could manufacture majorities would be expected to outperform both Russia and Czechoslovakia regarding legislative performance, high levels of property divestment, and the most equitable distributive privatization. Czechoslovakia would follow assuming a pattern of strong party development accompanied by moderate to low levels of fragmentation, polarization, and instability. The Russian case is predicted to have the poorest performance because the parliamentary settings varied; the leadership's best strategy was case-by-case temporary coalitions.

## **Chapter Two**

### **Russian Patterns of Privatization**

#### **The Degree and Kind of Property Transformation**

Uncertainty in the choice and design of its basic political institutions framed Russia's postcommunist dilemmas with effective governance and economic transformation. The demise of the Soviet Union offered the new national leadership a unique historical opportunity to democratize its political institutions. The Russian democratic leadership began to build a multiparty competitive political system, separation of powers presidentialism, and a market economy based on private property rights.<sup>1</sup>

However, Russia's transition began with a passage from centuries of autocratic institutions, values, and ways of governance. The expectations for democratic governance were uncertain; even the most optimistic observers only could express a hope that the new system would assume democratic form. In the short-term, several regime outcomes were possible. Soft forms of authoritarianism<sup>2</sup> or suboptimal forms of democratization such as "delegative democracy"<sup>3</sup> formed an uneasy juxtaposition to liberal forms of democracy<sup>4</sup> in the constitutional debates among Russian intellectuals and political elites.

Under these conditions, constitutional bargaining in Russia began in June 1990. The Congress of People's Deputies passed two decrees to create a constitutional commission and entrust it with the task of creating a new draft constitution. The Congress of People's Deputies

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<sup>1</sup> See Alexander M. Yakovlev, *Striving for Law in a Lawless Land: Memoirs of a Russian Reformer* (Armonk, New York: M.E. Sharpe, 1996). Yakovlev, a constitutional scholar, participated in the various commissions to draft a new Russia constitution. In his account, he reports the less certain process of considering some form of parliamentism, presidentialism, presidential-parliamentary, or premier-presidentialism.

<sup>2</sup> A. Migranyan "Russia's Fate, Prospects for Russian National Government -- The Former Empire After the Putsch," *Nezavisimaya gazeta*, December 14, 1991. P. 5 *CDPSP* Vol. XLIII, No. 47 1991. pp. 9-12.

<sup>3</sup> Advocates of democratization but with highly centralized presidential rule.

<sup>4</sup> The radical wing of Democratic Russia.

was the only Russian institution constitutionally empowered to amend the constitution. Despite the Commission's mandate to draft a new constitution, the process was hampered by collective action dilemmas and reticence on part of the parliamentary leadership. Parliamentary discussions were delayed and legislative majorities to pass a draft of a new constitution failed to materialize.

Consequently, during 1991-1993, governance in Russia was regulated by the Constitution of the RSFSR adopted on April 12, 1978. The document was modified during the post-Communist period with 300 amendments and additions. Russia was not unique, nor the first postcommunist country to move forward with the transition by modifying the Soviet-era document. Hungary and Czechoslovakia also proceeded with an amended version of their constitution. Constitution making in both Eastern European eliminated all traces of Soviet provisions and principles. In other words, the two Eastern European countries began with a cleaner slate.

For Russia's leadership the challenge was how to work within the constraints of using amendments as they chose new democratic institutions of governance. Further, institutional choice was path dependent. Preceding events already had narrowed the possibilities for intentional choice and design. Russia had already restructured its parliamentary institutions in 1989, held competitive elections for Parliament in March 1990, and added presidentialism to the configuration of institutions through a national referendum held in May 1991.

Arguably, Russia's first post-communist regime while technically a hybrid fits within the category of presidentialism. The executive early on was weak.<sup>5</sup> But subsequent interim laws and amendments conferred on the President of the Russian Federation special powers and control over the executive. The Russian President subsequently exercised his new authority and position

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<sup>5</sup> Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001).

to consolidate power. The Fifth Congress of People's Deputies in November 1991 approved the President's request to take over the functions of the prime minister; it delegated powers to 'structure the highest organs of executive power' to President Yeltsin. The Fifth Congress approved Yeltsin's suspension of the constitutional provisions which divided the executive into head of state and head of government. Temporarily, the president also assumed the position of prime minister. The president then implemented his political goals by taking control over the government; these steps included taking over leadership of the ministries relating to economics and security, and the supervision of the government through the presidential administration.

Under these new institutional arrangements, Russia in 1991 began its experiment to change its socialist system of property rights as part of the larger process of economic transformation. In 1991, Russia experienced serious economic and persistent ideological constraints. Aside from the heritage of patrimonial and Marxist-Leninist concepts of property ownership, the country had minimal experience with capitalism, limited advanced industrial technology, and inadequate domestic capital (Aslund, 1995). Furthermore, despite the claims of the newly governing democrats, there was little consensus and know-how on how to proceed (Shleifer, Vishny and Boycko, 1995). Yet, Russia implemented one of the twentieth century's most ambitious and controversial privatization programs -- the mass-give-away of the country's largest industries through vouchers.

The decision making involved in the formulation and implementation of mass privatization policy consistently has been characterized as top-down and unilateral. Some analysts of Russian privatization argue that executive dominance persisted, as evidenced by the president's use of presidential edicts, decrees, orders.<sup>6</sup> Alternatively, the weakness of

<sup>6</sup> See Lynn D. Nelson and Irina Y. Kuzes, *Property to the People: The Struggle for Radical Economic Reform in Russia* (Armonk, N.Y. and London England, M.E. Sharpe, 1994); See Scott D. Parrish, "Presidential Decree Authority in Russia," in John M. Carey and Matthew Shugart eds. *Executive Decree Authority* (Cambridge: Cambridge University Press, 1997) pp.62-103. and

governance has been cited to explain the flawed aspects of the mass privatization laws. Especially the distributive provisions of 1992 State Privatization Program, the controversies surrounding vouchers, and the failure to develop a legal foundation protecting and regulating private property rights gives weight to arguments focused on stakeholders and special interests as the determinants of Russia mass privatization program. In this chapter, I begin to evaluate the persuasiveness of such arguments.

The chapter consists of three sections that summarize the findings regarding the patterns of political governance and Russia's transformation of the property regime. In Section I, I analyze the corpus of law, the strategies used to legislate the legal framework and the obstacles entailed in the process of legislating privatization. The legislation required for the implementation of mass privatization is illustrative of the challenges involved in large-scale projects of socioeconomic transformation. My examination of law making below begins to address the issues of executive power, decision making, and policy effectiveness in addressing such challenges.

Section II examines the degree of property divestment. I apply criteria derived from the policy literature to assess the pace of de-étatization of the state's industrial enterprises, the scope of privatization across the Russian economy, and issues related to policy coherence and sustainability. Section III evaluates the kind of change defined as the distributive effects of mass privatization. The data gathered from the various research studies show that insider privatization appears related to the distribution of wealth in Russia. Admittedly, both the data and literature examining the relationship between privatization on a national scale and income equality is in its nascent stages. However, the findings suggest some preliminary conclusions regarding privatization strategies and the impact on socioeconomic structures. Insider privatization can

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Thomas F. Remington, "Law-Making and the Separation of Powers in Russia" unpublished paper, January 28, 2001 for a more nuanced account.

also be documented as a necessary condition for the rise of bureaucratic capitalism, confirming the claims of some Russian scholars (Simonia, 1999). But as the literature on state capture and partial reforms (Hellman, 2001) demonstrates, insider privatization is only a part of the larger processes related to the redistribution of economic and political power in postcommunist societies.

## **I. Creating a Legal Framework for Privatization**

When the Soviet Union collapsed, reformers who were adherents of revolutionary transition (shock therapy) came into power in Russia with President Boris Yeltsin. Yegor Gaidar,<sup>7</sup> who had studied neoclassical economics (Milton Friedman, James Buchanan, and Friedrich Hayek), assembled the government reform team. The reformers were sure that the liberalization of prices and privatization of enterprises would lead long-term to rapid economic growth and the spontaneous generation of markets and market institutions. For Russia's political economy, it was a considerable change in the ideology of transition from state controlled gradual transition to liberalization and de-étatization.

The main argument for shock therapy was that bureaucratic state interference blocked reforms (Sachs, 1993; Aslund, 1997:454). For instance, the earlier experience of market socialism in Hungary gives weight to such arguments. According to Kornai (1990:131), reform socialist countries maintained the fundamental attributes of the socialist system. The state-owned sector still dominated the economy and the main coordinator of economic activities was the centralized bureaucracy. Shock therapy and liberalization, however, produced a shock with long lasting and unexpected effects without being able rapidly to turn Russia into a market economy.

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<sup>7</sup> Yegor Gaidar was an economist, who worked as a researcher from 1981 at Moscow State University, and joined the Institute for System's Research at the USSR Academy of Sciences in 1987. Just prior to coming to power, Gaidar was heading own institute call the Institute of Economic Policy.

Scholars and reformers also held that private property rights were a necessary condition for a market economy and economic efficiency. Historian Richard Pipes (2002) echoed the concerns of the first Russian government by emphasizing “how critical the institution of private ownership is for the development of the economy.”<sup>8</sup> Further, he cited the applicability of Hernando de Soto’s property rights thesis for Russia. In his studies of the contemporary Third World, DeSoto demonstrated how the absence of clear property rights in these societies inhibited the growth of credit and, consequently, retarded economic development. Pipes highlighted the reformers’ concern regarding the relationship between private property and liberal political systems. He notes that “Law, too, is closely dependent on property.” Further, “Jeremy Bentham correctly wrote that where there is no law there is no property, and where there is no property, there is no law.”<sup>9</sup>

Aside from the ideological impetus for privatization, most of the reformers were economists who had abundant experience with the failures of an inefficient planned economy and socialist property rights. In the early 1990s, the common explanation of the inefficiency of the socialist economy was that people did not want to take care of property, when they did not control decision making. The role of the government also was important in Russian privatization, even if the choice officially involved a liberal, passive government ideology. Relying on market forces was expected to result in long-term growth in the Russian economy. The choice was partially political since it aimed at preventing any attempts to reverse the reforms. Translating the government’s preferences for rapid privatization and implementing neoliberal theory, however, was only the first step to changing the ownership regime. Legislative adoption

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<sup>8</sup> Richard Pipes, “Private Property, Freedom, and The Rule of Law” *Hoover Digest* 2002 No.2 (<http://www.hoover.stanford.edu/public>)

<sup>9</sup> Ibid.



in an increasingly democratized political system proved to be a complex and contentious process.

### **A. The Legal Framework of Russian Privatization**

The transformation of property rights in Russia relied, in part, on the state of its legal framework; privatization involved legislative statutes, state programs, methods of procedure, and instructions regarding various aspects of privatization. In this section, I trace the patterns of lawmaking to assess the effectiveness of Russian governance. In particular, I examine the Yeltsin administration's capacity to devise politically feasible and sustainable privatization policy.<sup>10</sup> Temporally, I use a periodization that captures the diversity of executive strategies used to legislative the legal framework for privatization. The periodization covers (1) the December 1990 privatization initiatives, (2) the pre-transition period (July to December 1991), and (3) the mass privatization program (1992-1994). The section concludes with an assessment of policy innovation that resulted from these measures.

The evidence shows that when privatization began in Russia, the constitutional, legal, and institutional foundation for the creation of private property was virtually nonexistent. Beginning in December 1990, approximately forty decrees, laws, and orders of importance were issued by the Russian Supreme Soviet, the President, the Government, the State Committee for the Management of State Property (GKI), and the Ministry of Finance. By 1994, a total of more than one hundred basic legal documents were prepared to launch the large-scale privatization.

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<sup>10</sup>Methodologically, the analysis entailed compiling a data set of Russian laws and differentiating the source (the president, the government, the GKI or the parliament), as well as the content and purpose of specific pieces of legislation. The sources included Russian databases and Russian newspaper reports of legislative adoption and non-adoption of governmental privatization programs.

To enact legislation, each state institution had the competence, jurisdiction, and authority for their acts. Early in the evolution of the privatization legal framework, these multiple actors achieved some level of coordination and effectiveness. But during the implementation of mass privatization in 1993, a war of laws ensued with the potential to derail the process. By the mid-nineties, Russia's problem was not the generation of law. Instead the government was criticized for issuing too many laws, decrees, and orders so that the privatization process lacked clear authority and enforceability.

### **1. Preliminary Initiatives (1990-1991) -- Cooperative Legislation**

In the Russian Federation, the first attempt to create a legal foundation for privatization came in late 1990 prior to its independence. The introduction of privatization reforms paralleled Russia's drive for independence and the radicalization of economic reform. The new laws aimed to stop spontaneous privatization and to stay one step ahead of the Soviet government so that it could not limit future privatization in Russia.

The initiative to legislate privatization reforms came from the Russia's first elected parliament (the Congress of People's Deputies and its standing body, the Supreme Soviet). Facilitated by a near majority of reformers, the legislative strategy was two-pronged -- to attain constitutional ratification of private property and to begin privatization.<sup>11</sup> A constitutional amendment to recognize "the inviolability of private property rights" was introduced. But the amendment was highly radical in December 1990. The majority of the deputies (even some liberal factions) rejected the amendment by a 66 percent to 33 percent margin. The constitutional legitimization of private property only appeared later in the 1993 constitution to enshrine the irreversibility of the changes in property ownership that already had taken place.

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<sup>11</sup> See David Lane and Cameron Ross, "The Changing Composition and Structure of Political Elites," in *Russia in Transition Politics, Privatization, and Inequality*, ed. David Lane (London and New York: Longman, 1995. pp. 59-62 for a detailed distribution of factional votes at the March 1990 Congress of People's Deputies.

The Supreme Soviet authorized Russia's first incremental steps toward creating a legal framework for privatization. Three important statutes were enacted. The RSFSR Law on Ownership was approved on December 24, 1990.<sup>12</sup> Private ownership was given equal status to state, municipal and other forms of public property. "The RSFSR Law on Enterprises and Entrepreneurial Activity" passed on December 25, 1990, allowed for multiple forms of property ownership. Private property included entrepreneurship, sole proprietorship, general partnership, limited partnership, and joint stock companies.<sup>13</sup> The RSFR Law on Foreign Investment expanded possible forms of ownership by allowing foreigners to form joint ventures with Russian enterprises.<sup>14</sup>

The Russian Supreme Soviet also passed a decree "On the Limitations of Privatization," that defined the acceptable limits on the denationalization of state-owned enterprises. The defense industry, railroads and natural resources such as forests were excluded from privatization. Surprisingly, the energy sector was included in the privatization program given the potential profitability represented by the oil and gas industry. In addition, legislation dealt with the nascent industrial enterprise groups. The law was intended to reassert state control by changing "concerns, consortiums, inter-sector governmental, and governmental production associations" into joint stock companies. But as subsequent developments show, this law did not discourage the growth and formation of industrial conglomerates.

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<sup>12</sup> Annotatsiia osnovnykh zakonodatel'nykh i normativnykh aktov reguliruiushchikh otnosheniia sobstvennosti i privatisatsiiu gosudarstvennykh i munitsipal'nykh predpriatii v Rossiiskoi Federatsii, in *Delovoi Mir* 131 10 July 1992 p. 7 cited in Lynn D. Nelson and Irina Y. Kuzes, "Privatization and the New Business Class" *Russia in Transition Politics, Privatisation, and Inequality*, ed. David Lane (London and New York: Longman, 1995) pp. 119-141.

<sup>13</sup> Full text published in "O predpriatiiakh i predprinimatel'skoi deiatel'nosti," *Ekonomika i zhizn*, no. 4 January 1991, p. 16. For a more detailed analysis of the Law on Enterprises and Entrepreneurial Activity, See Anders Aslund, *How Russia Became a Market Economy* (Washington D.C.: The Brookings Institution, 1995) pp. 223-226.

<sup>14</sup> Ibid.

By June 1991, the initiative for privatization shifted from the parliament to the president. The May 1991 elections for the newly created office of Russian Federation President bestowed on Boris Yelstin an overwhelming popular mandate. Under these new institutional arrangements, the first important privatization statute was adopted in the legislature. The Russian Federation Act No. 1531-1 of July 3, 1991, "On the Privatization of State and Municipal Enterprises in the Russian Federation" became the cornerstone of the program.<sup>15</sup> The 1991 Privatization Act set up the legal framework for privatization. The law provided a normative base for regulating possession, use, and disposal of ownership. To this end, Article 1 defines privatization as "the acquisition by citizens, joint stock companies of the various forms of property (as provided by law) from the state and local Soviets of the People's Deputies."

The 1991 Privatization Act also approved a wide range of privatization methods. In addition, the law authorized a new institutional mechanism for privatization -- the State Committee for Management of State Property (Goskomimushchetsvo). Often referred to by its Russian acronym, GKI, its institutional mission was to develop state privatization programs, supervise their implementation, and represent the interests of the state governmental bodies. The law also envisaged federal, regional, and local property funds that were designed as the trustees of corporatized state property.

Complimenting the Privatization Act, the Supreme Soviet also adopted on July 3, 1991, the law "On Inscribed Privatization Accounts and Deposits in the RSFSR."<sup>16</sup> Whereas the Privatization Act singled out enterprises for privatization to create a supply of property, the law on privatization accounts aimed to create popular demand. The law provided that "every citizen

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<sup>15</sup> For the full text of the 1991 Privatization Act, see Zakony RSFSR o privatizatsii gosudarstvennykh i munitsipal predpriatii, zhi'lia Moskva, Sovetskaia Rossia, 1991. Pp. 3-36.

<sup>16</sup> See "Annotatsiia," *Delavoi mir*, 131 10 July 1992, p. 5 cited in Lynn D. Nelson and Irina Y. Kuzes, "Privatization and the New Business Class" *Russia in Transition Politics, Privatisation, and Inequality*, ed. David Lane (London and New York: Longman, 1995. p 122.

of Russia would receive a certain, equal amount in a personal privatization account in a state savings bank.”<sup>17</sup> The accounts would be used for the purchases of all types of state property to be privatized throughout the Russian Federation.

Although the 1991 Privatization Act did not survive intact, the principles that were adopted were consequential for future programs.<sup>18</sup> The most important precedents were the concept of mass privatization and the free distribution of property to all the Russian people. The law itself, however, lacked practical mechanisms for the implementation of privatization. Thus, the new government rejected many of its provisions when Russia became fully independent in 1992.

## **2. Mass Voucher Privatization 1992 - 1994**

Russia’s first reform government was formed in November 1991. Neoliberal economist Anatolii Chubais was appointed Minister of Privatization and Chairman of the State Committee for Management of State Property (GKI).<sup>19</sup> The 1991 Law on Privatization also made the Minister of Privatization a Deputy Prime Minister ex-officio in the government; the goal was to centralize decision making in the office of a single minister within the government. By vesting the GKI with ministerial status, the Russian executive conferred upon the institution and its leadership the authority to pursue a single state policy of privatization in the Russian Federation.

The team of ministers in charge of the economic ministries was envisioned to function as an economic general staff with full control over the Russian economy.<sup>20</sup> The reform team’s

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<sup>17</sup>See Anders Aslund, *How Russia Became a Market Economy* (Washington D.C.: The Brookings Institution, 1995) p. 227.

<sup>18</sup> The 1991 acts while legalizing a program for privatization did not survive because they failed to incorporate a mechanism for the practical implementation of the program.

<sup>19</sup> After, Chubais left GKI in 1994, Chubais went on to fill a number of high level positions in the Russian government.

<sup>20</sup> See Mikhail Berger, “Yelstin’s New Appointments Means That the ‘Abalkanization of Gaidar’s Government is Likely” *Izvestia*, June 3 1992 p. 2 cited in *CDPSP* vol. XLIV no. 22 1992 pp. 6-7 for an excellent article describing the original mission of the reform team. The article charts the six month evolution of reform team from technocratic change team to its factionalization stemming from the

initial strategy to launch large-scale privatization was technocratic. Robert Bates (2000) defines technocratic decision making as instances when “policy is carried out by independent agencies within which economists debate and choose policies free from interference of politicians, private interests, or partisan political forces.”<sup>21</sup> The government’s technocratic policy strategy was bolstered by further changes in the Office of President. The legislature in November 1991 delegated to the president special powers, including decree power, to implement economic reform and the freedom to appoint and remove government ministers without parliamentary approval.

When Chubais took over the leadership of GKI, the July 3, 1991, Privatization Act was the legislative foundation for the transformation of state ownership relations. Under his leadership, the GKI modified the act to incorporate the government’s preferences through annual privatization programs, selective presidential edicts and decrees, and numerous orders. The executive’s first decrees served to change the policy agenda for privatization. Further, the Parliament failed to sustain majorities for any legislation related to changing the property regime. The legislature’s indecisiveness and lack of resolve permitted the executive to supersede it as the agent of change. At the end of 1991, executive prerogative was not used to overrule the legislative majority. Presidential decrees were accepted by both the executive and legislative branches as necessary to keep the program going.

In addition to setting the transition agenda, presidential decrees also were used to coerce compliance from enterprises and other economic entities. Early decrees also were used to launch small-scale privatization. The government in this way secured the participation of executives in retail, catering, and consumer enterprise. In particular, these businesses were forced to begin the

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President’s use of the cabinet as a bargaining strategy with the opposition, and as a lightening rod to deflect criticism.

<sup>21</sup> Robert H. Bates, “Institutions and Economic Performance,” paper prepared for delivery at the IMF Conference on Second Generation Reforms, September 22, 1999.

process of reorganization in preparation for privatization. Wholesale and retail trade, public catering, consumer services, and food processing were scheduled for privatization during the first nine months of 1992. Transportation, repair shops, construction and related industries, and light industries with enterprises of less than 200 employees were scheduled to follow at the end of the year. The program also directed local governments to devise privatization plans specific to the enterprises under their jurisdiction. This directive was to be carried out by local property management committees (regional branches of GKI).

In tandem, on December 27, 1991,<sup>22</sup> the Russian Supreme Soviet approved the resolution “On the Delimitation of State Property in the Russian Federation into Federal Property, State Property of Republics Belonging to the Russian Federation, Krai, Oblasti, Autonomous Regions, Autonomous Districts, the Cities of Moscow and St. Petersburg and Municipal Property.” The differentiation of property was necessary to launch privatization on a nationwide scale. All property in the Russian Federation was divided into several groups and a list of enterprises was compiled according to the level of property. The decree also became the source of new conflicts as various levels of power struggled for property.

Presidential Edict No. 66 of January 29, 1992,<sup>23</sup> “On the Acceleration of Privatization of State and Municipal Enterprises” introduced further regulation to conduct the preparatory work for privatization. To keep the program going, the Presidential edict included a procedure for how an enterprise would apply for privatization, how to turn enterprises into joint stock companies,

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<sup>22</sup> Two days after Mikhail Gorbachev resigned as President of Soviet Union, and the USSR ceased to exist.

<sup>23</sup> Presidential decrees had different connotations in terms of their legality. In order of importance these laws and rules took the form of edict, decree, regulations and orders. Edict referred to broad categories whereas decrees referred to discrete situations. See William E. Butler, *Basic Legal Documents of The Russian Federation* (New York, London, Rome: Oceana, 1992).

and how to conduct auctions and tenders. The President also approved an order on the composition of federal, state, and municipal property on an item by item basis and on the procedure for the registration of property rights.

### **3. Neoliberal Principles Adopted by Decree**

In late December 1991, the privatization team obtained the approval of the President and Parliament for the Provisional Privatization Program of 1992. The initiative represented the first major privatization law of the transition. Upon Chubais's insistence, the formal process of decision making began with parliamentary approval. The legislature's leadership was fundamentally in agreement with the executive on expediting economic reform. The Chairman of the Supreme Soviet abbreviated the legislative process by securing a decree from the coordinating body of the Supreme Soviet, the Presidium. The President, likewise, issued Edict No. 341 on December 29, 1991, formalizing governmental approval.<sup>24</sup>

Implemented on January 1, 1992, the Provisional Program became the first document that provided practical regulation for the privatization process. Small-scale privatization was to be launched during the first three quarters of 1992; approximately 90 percent of these enterprises would be sold through auction or competition. The decree implemented the establishment of property funds which would assume temporary ownership of shares, thereby specifying explicitly which bodies held title to state property. Clarification of ownership was necessary to stem the illegal appropriation of an enterprise's property by industrial directors, a process known as "nomenklatura privatization."<sup>25</sup>

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<sup>24</sup> Osnovnye polozheniia programmy privatizatsii gosudarstvennykh i munitsipal'nykh prepriatii v Rossiiskii Federatsii na 1992 god," Vse privatizatii v torgovle, (Concerning The Basic Provisions of the Program of Privatization of State and Municipal Enterprises for 1992).

<sup>25</sup> Alexander Radygin, *Privatization in Russia: Hard Choice, First Results, New Targets* (London: CRCE-The Jarvis Print Group, 1995) p. 15.



While the Provisional Program for 1992 was necessary to implement the small-scale program, the document also served as statement of the reform team's neoliberal principles and approach to privatization. Therefore, the strategies for privatization emphasized outside ownership over employee schemes. Special privileges for employees were not eliminated, but were restricted to 25 percent of an enterprise's share. However, these stocks lacked voting rights in shareholders' meetings. Managers also were envisioned to receive only 5 percent of the stocks, albeit with voting rights. The remaining shares would have been sold at public auction. In contrast to subsequent laws, this was the only method of privatization in the Provisional Program.

The Provisional Program for 1992 also reflects the reformers' desire to minimize the free transfer of shares to the population. An emphasis was placed on auctions and tenders to sell substantial amounts of property; this provision stressed the neoliberal principle that the distribution of property should be market driven. The free allocation of property by the state was not seen as an efficient way to channel resources to the most effective owners. In addition to using the market to allocate property, this early legislation reflected the executive's ideological commitment to minimizing the extent of ministerial control of privatized enterprises.

#### **4. The Strategy of Law making by Statute: Opposition, Negotiation and Cooptation**

The Provisional Program offered temporary legal guidelines to proceed for the first six months of 1992. As a measure to implement the privatization of small businesses, it served the political purpose of building some support from local officials and politicians who were the beneficiaries of the profits. Adoption of the basic provisions by Presidential Edict and parliamentary decree permitted the circumvention of an elaborated decision-making process. As such, Chubais was able to capture the privatization policy agenda and frame the terms of the debate. Although neoliberal strategy for privatization soon became contested, Chubais set for the

country some basic benchmarks for property transformation. While the neoliberal goals and objectives eventually were eroded through compromise and negotiation, some of the major tenets survived in the 1992 State Program.

The draft legislation for a full-fledged privatization program was submitted to Supreme Soviet in late March 1992. Between November 1991 and March 1992, the privatization minister and the new top officials of the GKI defended the principles of privatization without compromise. However, in the spring of 1992, the privatizers began to confront opposition from the Parliament (the Congress of People's Deputies and Supreme Soviet). In April the Sixth Congress of People's Deputies, which was opposed to the consequences of shock therapy, rejected the proposed privatization program. Following pressure from opposition from the left and right, the program's provisions underwent modification. The following month Chubais submitted a new version of the 1992 Privatization Program to the Supreme Soviet that he felt the legislature could not refuse.

Three main strategies dominated the agenda: promotion of shareholder coalitions, speed, and simplicity.<sup>26</sup> First, the promotion of shareholder coalitions was meant to diminish the influence of politicians and bureaucrats especially the ministries, in the privatization process, and obtain the cooperation of the managers in the privatization process. Second, the reform leadership in the government saw speed as essential for successful reform; the aim was to avoid political opposition that could block or reverse the process. Third, simplicity was essential because of the large number of enterprises to be privatized and the lack of experience of the Russian government and public in exchanging assets.

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<sup>26</sup>Anders Aslund, *How Russia Became a Market Economy* (Washington D.C.: The Brookings Institution, 1995).

“The State Program of Privatization of State and Municipal Enterprises for 1992” was adopted by the Russian Supreme Soviet on 11 June 1992.<sup>27</sup> The State Program diverged from both the Privatization Act of 1991 and the Provisional Program of December 1991. The 1992 Law in its introductory statement articulates the three objectives of the program. These included the (1) establishment of the legal-organizational basis for property reform, (2) privatization of state and municipal enterprises, and (3) creation of an effective socially oriented market economy. The substance of the law reflects the multiple compromises made between the executive and legislature to obtain a majority necessary for passage.

Mass voucher privatization was the centerpiece of the 1992 State Program. Mass privatization is described as a “systems approach to privatization.”<sup>28</sup> The aim is to quickly transfer a substantial portion of publicly or state-owned assets to a diverse group of private owners. The goal of mass privatization was to privatize a large number of state-owned enterprises (hundreds or thousands) in a relatively short-period of time.

In addition, the new law incorporated privatization options insisted upon by legislators. The law offered three options. Option one represented the reformers’ preferred policy; employees could receive 25 percent of the shares (non-voting) of their enterprises for free. Option two offered employees preferential shares up to 51 percent. Option three was specifically intended to satisfy managerial demands.<sup>29</sup> However, option three rarely was chosen due to its strict eligibility requirements which were obscurely written into the legislation

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<sup>27</sup>Maxim Boycko, Andrei Shleifer, and Robert Vishny, *Privatizing Russia* (Cambridge, MA: MIT Press, 1995) p. 78.

<sup>28</sup> For a detailed definition, see Ira W. Lieberman, “Introduction: Mass Privatization in Comparative Perspective” in Ira W. Lieberman, Stilson Nestor and Raj M.Desai *Between State and Market: Mass Privatization in Transition Economies* (Washington D.C.: The World Bank/ The Organization for Economic Cooperation and Development), pp. 1-18.

<sup>29</sup> The third variant assumed that a group of employees took responsibility for privatization and future reconstruction and development of the company for not less than one year. In this case the group received the right to buy 20 percent of the stock in common shares at the nominal price. The working collective could purchase another 20 percent at the nominal price but not more than twenty minimum salaries for

## 5. The Strategy of Presidential Decree: Covert Changes, Regulation and Coercion

Following the adoption of the State Program on June 11, 1992, Chubais called upon the president and obtained two more decrees of importance. Both instances represented an example of Chubais's strategy to legislate features of the program that were controversial during the legislative process. Chubais appears to have removed the controversial issues related to vouchers from the bill to attain legislation of the draft law. While his motives are not known on this issue, it is likely that further debate on these issues at a minimum would have blocked a timely process of legislative adoption. More likely, the law would have not been adopted.<sup>30</sup>

Accordingly, on July 1, 1992 Presidential Decree No. 721 was issued. The decree mandated an extremely accelerated procedure for the conversion of state enterprises into joint stock companies (corporatization).<sup>31</sup> Enterprises were forced to take the first step necessary for privatization in order to boost investment demand, to attract capital, and to create a flow of capital among economic agents. The enactment of the corporatization decree accelerated privatization through the immediate transformation of 6000 enterprises into joint-stock companies.<sup>32</sup>

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one workers, with a 30 percent discount on a three-year installment plan. Less than 1 percent of the privatizing companies chose this plan.

<sup>30</sup> According to Chubais's own account, the adoption of the 1992 Law was accomplished through complicated maneuvering to overcome two deficits. Legislative adoption from Chubais's perspective could have proceeded with much less bargaining and consequent changes in the law, if the Chairman of the Supreme Soviet had not reneged on his implicit agreement on passage. While this takes some reading between the lines in Chubais's recounting of events, it appears that the Chair had agreed to enforce his authority over the order of proposal and vote. But at the last minute instead the Chairman withdrew, permitting a parliamentary free for all. See Anatolii Chubais, "Vtorii Rynd, verknogo sobet" *Privatizatsia Russii* (Moscow, Vagrius, 1999) pp.94- 96.

<sup>31</sup> "On Organizational Measures for Transforming State Enterprises and Voluntary Associations of State Enterprises into Joint Stock Companies" containing the "Statute on Commercialization of State Enterprises and Simultaneous Transformation Transformation into Publically-Held Joint Stock Companies."

<sup>32</sup> See Anders Aslund, *How Russian Became a Market Economy* (Washington D.C.: The Brookings Institution, 1995) p. 253 for in-depth analysis of the law. See also Olga Berezhnaya, "Biznes" *Moscow News* Oct. 14, 1992 p. 6. who notes that the resistance to this law came from "ministries, concerns and

In August 1992, the President issued Edict No. 914 “Concerning the Introduction of a System of Privatization Vouchers in the Russian Federation.” The purpose was to implement voucher privatization. Vouchers were envisioned to permit access by all Russian citizens over 18 to participate in privatization. More importantly, the decision to legislate by decree was employed as a strategy to override parliamentary opposition to the transferability of vouchers. In Czechoslovakia, the voucher program was premised on non-transferable vouchers with the intent to keep the future ownership diffused. In contrast, Russia’s reformers issued the measure to allow for the eventual concentration of ownership. The reformers did not lose sight of their original goal to create an ownership structure that could exercise control over the enterprise through their voting shares.

Less noticed at the time, another set of decrees addressed Russia’s existent and new industrial conglomerates -- the financial industrial groups (FIGs). Official approval of FIGs can be traced to a series of measures such as the Edict 1392 of the Russian president on November 16, 1992; it approved the formation of holding companies. According to the November edict, ten holding companies (e.g., Gazprom, Russian United Energy System, YuKOS) were authorized to do business. The edict further established vertically integrated oil companies from former oil-producing associations of the former Soviet Union. The gas sector, however, was to remain intact under the gas monopoly Gazprom.<sup>33</sup>

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associations. The former Ministry of Industry claimed that 38 percent of its enterprises should be excluded from privatization, the Ministry of Fuel and Power claimed 70 percent, and the Ministry of Atomic Energy 75 percent.”

<sup>33</sup>Like the breakup of Standard Oil in the United States during the beginning of this century, the oil production monopoly was separated along geographic lines, combining regional oil production associations with refineries and product distributors, and transforming them into integrated joint (public and private) stock companies. The final restructuring and consolidation of the industry's assets occurred in 1995 under a subsequent presidential decree that gave rise to the current structure of eleven vertically integrated oil companies. Their estimated size in reserves and production allows them to compete with the world's major petroleum companies; eight of the eleven integrated Russian oil companies were ranked in *Petroleum Intelligence Weekly* as among the "World's Top 50 Oil and Gas Companies for 1994.

In 1993, additional presidential decrees were issued to create conglomerates of enterprises engaged in the extraction and sale of diamonds, as well as Rosneft, Lukoil, and Aeroflot. Gazprom also was converted into a joint stock company; the process of privatization began in April 1994. As in the oil industry, the process permitted shares to be divided among Gazprom employees and other domestic investors, while 40 percent of its shares were to remain in government hands for at least three years. Nine percent of Gazprom's stock was set aside for foreign ownership. The sale of shares (even between private individuals) required Gazprom's approval.

## **6. The 1993 State Privatization Program: The Predominance of Decree**

By the end of 1992, the use of presidential decrees to legislate privatization became a permanent feature of the politics of privatization until 1994. The State Program for 1993 was ready for parliamentary adoption in December 1992. The proposed draft law to implement the program was submitted to parliament, but was withdrawn. These decisions were taken against the background of increasing conflict between the President of the Russian Federation and the Congress of People's Deputies. Just some of the key issues that prompted executive decrees concerned enterprise resistance to privatization, establishing investment funds, sustaining the value of vouchers as politics depressed their value,<sup>34</sup> and protecting the rights of small investors.

For Chubais, the decisive event that foreclosed future legislative and executive cooperation came immediately following the passage of the 1992 program. In July 1992, deputies representing employees interests were not satisfied with the law's distributional implications. The opposition viewed the legislation of the 1993 program as an opportunity to redress their grievances.

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<sup>34</sup> Two orders (razporazhenie) were issued on the October 14, 1992. The first order promoted the value of vouchers by lifting the share of the share of state property saleable for vouchers. The second order allowed for the use of vouchers in the purchase of medium-scale enterprises (from 1 to 50 million rubles charter capital) as well as of houses, plots of land and municipal property.

Deputies and industrial groups called for provisions guaranteeing greater shares to be given to employees. In the spring of 1993, a group of deputies led by Vitali Kliuchnikov, the deputy chairman of the Russian Federal Property Foundation, supported a proposal in the Supreme Soviet to allow employees to obtain 90 percent of their enterprises shares. Chubais circumvented legislative approval entirely in order to avoid this major concession. The government withdrew the 1993 privatization program from consideration through a series of legislative maneuvers, and advanced voucher privatization by presidential decree.

Hoping to enlist additional support from the population and to stave off attempts by the ministries to limit the scope of privatization, the government (Council of Ministers) also issued several decrees that would ensure voucher holders access to enterprise shares. In May 1993, the President issued a decree to protect the right of citizens to participate in privatization by guaranteeing that enterprises would make at least 29 percent of their shares available for vouchers at auctions. This measure was fiercely resisted by the government's political opponents; ultimately it was declared unconstitutional by the Supreme Soviet.

Mass privatization in 1994 proceeded by presidential prerogative as a means to circumvent Parliament. The 1994 State Program was signed into law by Presidential decree on December 24, 1993. In sum, the executive -- especially through the strategies of Privatization Minister Chubais -- had exploited a short "window of opportunity" to legislate the 1992 framework legislation. Henceforth, important decisions on privatization were made through presidential decrees, while less significant decisions were made by the government or the GKI.

## **B. Summary: Governance and Law Making**

The content analysis of some forty legislative statutes, edicts, and decrees issued to accomplish the first phase of large-scale privatization provides a starting point for developing my institutionalist argument. But the evidence also is helpful to briefly evaluate the usefulness or eliminate some alternative institutional arguments used to explain Russian economic reform. The findings outlined above indicates a more complex pattern of executive action than depicted in either the dominant executive or ineffective executive theories.

Of the executive dominance theories, one of the most influential used to explain Russian politics is Guillermo O'Donnell's "delegative democracy" (Kubicek, 1995; Barnes, 1998; Culluodin 2001). Delegative democracies arise when the winner of presidential elections has the right to govern the country according to his/her own discretion. The president is limited only by conditions of the existing power relations and the term of office set by the constitution. The president, who stands above political parties and group interests, is looked upon as the embodiment and main custodian of the nation and its interests. Other institutions -- the judiciary and legislature -- are constraints; accountability to such institutions stands in the way of the full execution of power delegated to the president.

In a delegative democracy, the expectation is that executive rules unilaterally. The legislative pattern is characterized by the predominance of decrees used to overrule legislative majorities that stand in opposition to the government's program. Absent is any type of deliberative negotiation that represents true give and take between the two institutions designed to reconcile differences in the preferred outcome.



Using the policy issue of privatization, the detailed analysis of law making during December 1990 through June 1992 fails to support the delegative democracy theory. Instead, the pattern that emerges is not the top-down imposition of executive power as predicted by delegative democracy. Additionally the policy pattern does not provide evidence for the bottom-up capture of privatization as predicted by stakeholder theory. Rather, the steps taken to adopt mass privatization involves a fairly balanced pattern of both top-down vertical decision making and horizontal, deliberative give and take between the legislature and executive. The executive used decrees and orders (1) to generate momentum for property transformation when the parliament was biased toward the status quo; (2) to create the regulatory environment to implement privatization; (3) to author strategic turns on policy not so apparent to legislators; and (4) to override legislative opposition by acting unilaterally to approve privatization programs under specific conditions.

Changes in this balance (the use of statute versus decree) correspond roughly to the intensification of conflict between the executive and legislature. The constitutional crisis which played out over 1993 shaped all aspects of Russian political life, especially property and other economic reforms. For the legislation of privatization law, the main consequences included the presidential use of decrees to complete mass privatization in 1993 and 1994 after the legislature in two separate instances attempted major policy reversals.

In sum, the earliest phases of privatization (late 1990 to fall 1991) legislated statute structured the pace of change while presidential decrees were used as a policy instrument to accomplish the technical requirements for privatization. Once the transition was under way, the

process of legislative adoption appears to have been an exercise in institutionally shaped strategic choice, deliberative negotiation, and cooptation. Technocratic top-down decision making was replaced by political entrepreneurship. The 1992 law represented the limits of cooperative executive and legislative lawmaking under Russia's existing institutional arrangements.

## **II. The Degree of Change: De-étatization**

Privatization began during the Gorbachev era and is still a work in progress, with 71 percent of the country's GDP now produced by the private sector. Following the mass privatization program of 1990 to 1994, several other programs followed. Two programs were particularly controversial -- the cash phase of 1995 <sup>35</sup> and the loans-for-shares of 1996.

Unlike the limited policy initiatives that characterized the late Soviet period, the transformational goals of the new leadership in the new Russia successor state departed radically from the late Soviet-era property reforms in form and substance. Unlike the various collective forms of worker ownership that developed in the Gorbachev era, the Gaidar team emphasized innovations compatible with the leadership's overall national goals of creating a market economy -- individual ownership, the tradeability of ownership instruments and the development of financial markets.

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<sup>35</sup> During the sale of shares the following sequence of the privatization methods was envisaged: free transfer and/or sale of shares to the employees through a closed subscription; sale of equity (not less than 15-25 percent of the charter capital) through the investment tenders; commercial tenders; and/or at an auction; sale of the remaining shares at the specialized auctions including the interregional and the nation-wide auctions. Prominent features of the cash stage were the struggle for the absolute control over the privatized companies by new owners, the maximization the revenues of the federal budget, and opposition attempts to reverse the outcomes. Privatization during the second half of 1994 until the beginning of 1996, however, was characterized by its slowness, uncertainty, and failures to generate the much-needed revenues to relieve the federal budget.

The key objective of mass privatization was to transfer the maximum number of state-owned enterprises to private ownership. The main qualitative result of the voucher privatization period was the formation of a category of private owners, which made Russian market reforms irreversible. About 1.5 million private owners emerged and over 40 million Russian citizens became shareholders in approximately 17,000 medium and large scale enterprises. Vouchers were issued to all Russian citizens in October 1992 and were given a one-year period of validity. They could be bought and sold freely but could not be considered cash in consumer goods transactions. In principle, vouchers could be used to buy Russian property in any part of the Federation. In practice, the basic requirements for this scheme to work were not satisfied -- interest in property rights, information about different property values, and an adequate supply of capitals assets.

The "voucher stage" of privatization was completed on July 1, 1994. During this stage, privatization was carried out by selling property for privatization vouchers; 29 per cent of the shares in privatized enterprises were made available at public voucher auctions. Voucher auctions were held at the national, regional, and inter-regional levels. As many as 86 regions participated in some of them. This process made the purchase of equity in major enterprises accessible to all citizens.

#### **A. Property Divestment**

Russia's most impressive results concern the implementation of mass privatization which was completed by July 1994, and the massive divestment that occurred within GKI's envisioned targets set by GKI. At the beginning of 1991, Russia had approximately 23, 766 mid-sized and large industrial enterprises and 170,000 smaller ones.<sup>36</sup> By the beginning of 1996, 77.2 percent

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<sup>36</sup> Joseph R. Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca and London: Cornell University Press, 1997). p.25.

of the mid-sized and large enterprises were privatized; they accounted for 88.2 percent of industrial output. However, most employment at that time was not in the private sector. Blasi's research estimated that of 67 million of the Russian population employed no more than 27 million were in the private sector. Further, the 40 million workers in the state sector were likely to remain there.<sup>37</sup>

Mass voucher privatization while controversial permitted a fairly direct and forceful process of implementation of the executive's goals and objectives. I use several indicators to evaluate the degree of property change under the auspices of mass privatization. These include the percentage of corporatization, the volume of sales through auctions, structural change in the workforce, and privatization by industrial sector.

The privatization of business and industrial enterprises was conducted through a variety of methods. These included direct sales to employees as well as sales to a combination of employees and outside investors through auctions and commercial tenders. Voucher auctions became the most important means for the distribution of shares of stock. Presidential decrees mandated that not less than 29 percent of all stock had to be sold at these auctions. After July 1993, the minimum portion of shares intended for exchange for vouchers increased from 29 to 80 percent.

## **1. Corporatization and Voucher Distribution**

As a precursor to the sale of shares, two national initiatives were implemented -- corporatization<sup>38</sup> and voucher distributions. The July 1992 presidential decree on corporatization

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<sup>37</sup> Ibid., p.76.

<sup>38</sup> Corporatization is a component of the privatization process by which state-owned enterprises are provided with a clear legal status and ownership structure. In mass privatization, the purpose is create a pipeline of state-owned enterprises to be legally converted, usually as open joint stock companies. Features of mass corporatization may include corporate charters, an equal nominal share value for all the shares of the corporations included in the program included in the program, the use of an adjusted book value as a starting point for initial valuation of the newly formed company (for opening balance sheet purposes) and initial nomination of boards of directors.

mandated that all enterprises to be privatized should be changed into joint stock companies. During corporatization all shares were still owned by the state. As Blasi et al. note, corporatization aimed to “bar well-placed members of the Communist Party, enterprise managers, and state bureaucrats from snapping up the shares of the companies under their control.”<sup>39</sup> A time limit was set to complete mandatory conversions by November 1992. Some 22,000 firms were eligible and 80 percent were corporatized by April 1994.<sup>40</sup> On August 14, 1992, the GKI announced the distribution of vouchers; all vouchers in line with its objectives were distributed to the Russian population by October 1, 1992. About 144 million vouchers were distributed (one voucher to a person); each voucher had a nominal value of 10,000 rubles in January 1, 1991, prices (approximately \$30 U.S. Dollars).

## **2. Divestment: Geographic Scope and Volume of Sales**

Divestiture of large-scale industry began in 1993 through the redemption of the 144 million vouchers issued to Russian citizens. In terms of geographic scope, auctions began modestly. According to Boycko, Shleifer and Vishny (1995), voucher auctions first were conducted in urban areas; then were implemented in the most “progressive regions in Siberia and in the cities around Moscow.”<sup>41</sup> Some regions initially refused to participate. Nonetheless, by April 1993, the program had expanded to 70 of 89 of the regions. By 1994, the GKI documented that 86 of Russia’s regions had participated in privatization auctions.

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<sup>39</sup> Joseph R. Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca and London: Cornell University Press, 1997) p.25.

<sup>40</sup> Anders Aslund, *How Russia Became a Market Economy* ( Washington D.C.: The Brookings Institution, 1995) p. 256.

<sup>41</sup> Maxim Boycko, Andrei Shleifer and Robert Vishny, *Privatizing Russia* (Cambridge, MIT Press, 1995). p. 104.

The sales of large and medium enterprises also began slowly -- only eighteen large companies were sold in 1992. These companies accounted for about 17 million employees in 1992. During 1993 voucher auctions for the sale of 7,500 enterprises employing 8 million people were completed.<sup>42</sup> Between December 1992 and June 1994, some 15,779 medium and large scale firms were sold through voucher auctions.<sup>43</sup> Further, voucher privatization resulted in the shift of 900,000 employees a month from the public to the private sector. By the end of program in 1994, approximately 18 million people or two-thirds of the Russian manufacturing work force were in private firms.

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<sup>42</sup>A. Privalov and N. Kalinichenko, "Voucher Privatization by Sector." *Commerzant International*, Vol.7 February: 1997 p. 10.

<sup>43</sup> The total number of firms privatized comes from GKI data cited in *Privatizing Russia*. Blasi's later study, however, reports that 16,462 were privatized by the end of 1994 and 17,937 by the end of 1997. See Joseph Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca and London, Cornell University Press, 1997) Table 1, pg.189.

**Table No. 2.1 Degree of Change: Voucher Auctions December 1992 - June 1994**

<b>Month</b>	<b>Enterprises Sold</b>	<b>No. Of Regions</b>	<b>Tbousands of Employees</b>	<b>Weighted average block of shares</b>	<b>Thousands of vouchers</b>
<b>1992</b>					
March					
April					
May					
June					
July					
August					
September					
November					
December	18	8	43	17	158
<b>1993</b>					
January	108	26	188	11	159
February	197	41	200	19	611
March	450	58	556	25	2284
April	611	70	837	22	4147
May	576	73	598	21	4306
June	909	80	821	19	4362
July	916	82	782	23	6691
August	895	82	830	20	4489
September	811	83	826	20	5069
October	969	83	910	18	4598
November	1005	83	906	19	3133
December	1054	83	1026	20	3546
<b>1994</b>					
January	738	84	664	23	3130
February	779	84	1285	15	4549
March	975	86	1072	16	8982
April	1084	86	1283	17	13502
May	1212	86	1170	23	8828
June	3165	86	7822	21	33851
Grand Total	16462	86	21819	20	116395

Source: Blasi, Kroumova, and Kruse, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca and London: Cornell University Press, 1997) p. 192.

## B. The Scope of Industrial Sectors

The mass privatization program included most industrial enterprises. However, the strategic industries were excluded including most of the military industries, energy, education, medical facilities.<sup>44</sup> In addition, according to Blasi, companies with less than 1,000 employees were left out and companies with more than 10,000 employees did not have to privatize until they received special permission to do so.<sup>45</sup> In total, 30 percent were excluded.<sup>46</sup> As the brief discussion below shows, the first phase covered most manufacturing, but the percentages of divestment indicate that large blocks of residual shares were left with the state.

Large-scale privatization began with light and heavy industries. According to GKI estimates, the most popular (until shares of the fuel and energy complex appeared) were enterprises in mechanical engineering, food, tobacco, furniture and wood-working industries, hotels, enterprises located in the most prestigious regions, and the largest enterprises. Although the oil industry was initially exempted from the 1992 mass voucher privatization program,<sup>47</sup> the oil companies later agreed to sell 20 percent of their shares to citizens for vouchers.<sup>48</sup>

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<sup>44</sup> Under the State Program for Privatization of State and Municipal Enterprises in the Russian Federation adopted through presidential decree on July 22 1994, the following also was prohibited: subsoil resources, forests and water resources; railways, railway facilities and equipment directly used in the shipment process and emergency restoration works; waterworks, treatment system, and structures, and organizations supervising the condition of lands; budgetary assets of the Republics: assets of pension funds, social insurance funds, employment funds, social support funds and other extra budgetary funds resources of the Russian Central bank, the State Fund of Precious Metals and Gold Reserves of the Russian Federation; and space satellite systems among others.

<sup>45</sup> Joseph R. Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism:Privatising the Russian Economy* (Ithaca and London: Cornell University Press, 1997) p. 40.

<sup>46</sup> Anders Aslund, *How Russia Became a Market Economy* (Washington, D.C.: The Brookings Institution, 1995) p. 253.

<sup>47</sup> For the most part, privatization of the energy sector did not officially begin until the loans-for-shares programs in the mid 1990s. For a detailed examination of the status and privatization of the oil industry. See Peter Rutland, "Lost Opportunities: Energy and Politics in Russia," *Analysis* vol 8. no. 5 The National Bureau of Asian Research, 1997. pp.9-15. According to Rutland, "In October 1996 Gazprom shares were quoted on the London Stock Exchange and Western investors were offered \$429 million worth of shares—in the form of American Depository Receipts (ADRs)—in the firm. (Several oil companies have since issued ADRs, including LUKoil, Surgutneftegaz, Tatneft, and Chernogorneft.) As a consequence "n 1996 Gazprom managed to invest 33 trillion rubles (\$6 billion), starting work on: (1) a



In the final month of voucher privatization, almost 3,000 firms were privatized, accounting for 25 percent of privatized assets and including some of the most important industrial sectors -- telecommunications, nonferrous metals, and oil and gas. Enterprises of eight other branches of industry accounted for 70 percent of the vouchers -- mechanical engineering (11.4 percent), metallurgy (11.1 percent), chemical industry (10.5 percent), oil and gas extraction (9.1 percent), oil refining industry (8.9 percent), power industry (8.1 percent), postal services and communications (5.8 percent).<sup>49</sup>

### **C. Policy Sustainability and Coherence**

The Provisional Program for 1992 expressed neoliberal values, priorities, and methods. Individual ownership, tradeability of ownership instruments, and the development of financial markets were the core principles of the reformer's neoliberal policy. The Chubais team emphasized outside ownership, a restricted program of preferential shares for employees, and downplayed free give away-schemes. The privatizers were able to claim victory in sustaining the core principles throughout the legislative process.

However, the negotiation and compromises entailed in the legislation of the 1992 State Program removed any possibility of sustaining other neoliberal objectives. The privatizers settled on one key objective: "to temporarily distribute the private ownership rights on mass scale with the minimum of social conflicts but bearing in mind future redistribution in favor of the effective and responsible owners."<sup>50</sup> The final form of the 1992 laws gave rise to contradictory policy

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new \$2.5 billion pipeline to carry 40 billion cubic meters of gas a year 1,200 kilometers from the Yamal peninsula to Germany; (2) a new north-south line inside Russia to carry gas to Stavropol; and (3) a new program for introducing gas lines to rural regions in central Russia. In March 1997 Gazprom began selling off 8 percent of its shares for cash."

<sup>48</sup> See Peter Rutland ed., *Business and State in Contemporary Russia* (Boulder, CO.: Westview Press, 2001).

<sup>49</sup> A. Privalov and N. Kalinichenko, "Voucher Privatization by Sector." *Commerzants International*, February 7, 1994 p.10.

<sup>50</sup> Maxim Boycko, Andrei Sheifer, and Robert Vishny *Privatizing Russia* (Cambridge and London: MIT Press, 1995).

outcomes: (1) the mass privatization portion geared to include most Russian citizens (up to 29 percent of shares), (2) management-employee buyout that excluded or limited the average Russia citizen, and (3) the competitive sale of shares at investment tenders or cash auctions (10 to 20 percent enterprise shares).

In contrast, the 1992 State Program reflected political realities. The reformers adopted a mass voucher privatization strategy instead of cash sales. The aim was to build political support not only for privatization but also for the transition to a market economy. Chubais fought hard for and was able to keep auctions as the main method of sale. But with the inclusion of Option Two -- preferential shares for employees (51 percent), the reformers paid a high cost in exchange for a timely process of legislative approval.<sup>51</sup>

In return, the reformers were able to sustain the principle of individual ownership and pursue rapid privatization. The Chubais team also achieved their objective to temporarily distribute private ownership rights on mass scale with the minimum of social conflicts. The transferability of vouchers and the establishment of voucher funds sustained the reformers' objective to concentrate ownership. However, strategies to circumvent concentrated ownership by enterprise insiders through the emergence of secondary markets failed. The reformers also appear to have placed a higher value on sustainability and irreversibility rather than strict adherence to their initial preferences. Once the June 11, 1992, State Program was passed; the program proceeded uninterrupted to completion in June 1994. The use of statute and decree, supplemented by selective incentives, made the program sustainable despite the constitutional crisis of 1993 and attempts by the Supreme Soviet during this time to dismantle the program.

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<sup>51</sup> In the spring of 1992, strong and broad political support existed for large benefits for workers. The idea of the means of production belonging to the workers had a great deal of historical support in Russia, and carried substantial support from the workers lobby as well as among voters generally. Many enterprise managers also favored the idea of turning firms over to their managers and workers for free, especially if the firm could be transformed into closed partnerships. Managers believed they controlled their own employees and prevent possible outside ownership.

### III. The Kind of Change and Ownership Patterns

In all transitional countries privatization programs are pursued to fulfill a range of state and/or social objectives. Russia's State Program for 1992 called for a socially-responsible privatization. President Boris Yelstin proclaimed that privatization would result in a "people's capitalism," in which hundreds of thousands of Russians would become owners. The architects of privatization, Anatolii Chubais and Yegor Gaidar also viewed privatization as a political strategy; a critically important issue was to free economic life from the political sphere of the state. Privatization thus was a strategy to make Russia's transformation irreversible. Other than the de-étatization of the state, most of these expectations were left unmet.

The kind of change thus concerns the longer-term qualitative consequences of privatization. The causal linkage stems from distributive aspects of Russia's privatization policy and the consequences for the broader political economy. I explore the linkages between ownership patterns, political power, and wealth, with a fundamental question of democratic transition -- *cui bono* or who benefits?

Below, I develop the discussion regarding the kind of privatization around three issues -- ownership patterns, inequality, and the type of capitalism emerging in Russia. Inequality is evaluated broadly; privatization was only one factor contributing to Russia's concentrated income structure in the mid-1990s.<sup>52</sup> I examine the ownership patterns (1) to ascertain who the beneficiaries of privatization were and (2) the impact of the evolving ownership structure on societal trends. I then use the data garnered from several research studies to evaluate the claims that Russia's future political economy assumed the form of bureaucratic capitalism.

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<sup>52</sup> Other factors are attributed to rent-seeking activities linked to privatization and the liberalization of trade. Russia's decision to pursue an industrial policy modeled on South Korea and the Asian tigers also influenced the outcome.

Before proceeding, two caveats are in order. First, the evolution of the property regime in Russia and its associated effects are long-term processes influenced by multiple factors, not just the distributive effects of privatization. Second, the political economy is a dynamic concept. The patterns of social inequity, the ownership structure of enterprises, and the kind of capitalism were in flux. Recent changes -- in social policy, economic growth, and the legal regulation of property rights -- already have altered the type of capitalism that characterized Russia in the mid through late 1990s. The patterns of ownership and capitalism that will result are yet unknown.

### **A. Patterns of Ownership**

Typically, the analysis of ownership patterns divides the type of owners into two categories. The literature on ownership structure focuses on firm performance and efficiency within the broader interest of issues related to economic dynamism and growth.<sup>53</sup> Ownership categories, salient to identifying the socioeconomic effects of privatization, consist of the dichotomy between insider and outsider ownership. Another consideration is the issue of state ownership. The patterns of insider and outsider ownership also structure the analysis of the larger processes of transformation -- changes in social structure, income disparity, and the nature of capitalistic development. My discussion of these issues below is qualitative; I develop my

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<sup>53</sup> Just a few examples include Roman Frydman, Cheryl W. Gray, Mark Hessel and Andrejz Rapaczynski. "When does Privatization Work? The Impact of Private Ownership on Corporate Performance in Transition Economies." *Quarterly Journal of Economics* 114 1999 pp. 1153-91; John S. Earle "Post-Privatization Ownership Structure and Productivity in Russian Industrial Enterprises" Stockholm School of Economics Central European University presented at ACES-ASSA meeting January 28, 1998; Jeffrey Sachs, Clifford Zinnes and Yair Eilat, "The Gains from Privatization in Transition Economies: Is Change of Ownership Enough?" CAER II Discussion Paper No. 63, Harvard Institute for International Development, Cambridge, MA. 2000.

argument using data from a variety of empirical sources including Blasi et al's (1997) National Russia Survey, the 1994 World Bank Survey of Russian enterprises (cited in Earle and Estrin, 1997), the EBRD 2001 Report on Russian income distribution and the various micro-studies of ownership.

## **1. General Patterns of Insider Dominance**

A large and growing literature now exists seeking to understand the effects of alternative distributions of ownership at the micro-level regarding the performance of newly privatization firms. Research has focused on performance regarding profitability, corporate governance, downsizing, labor productivity, technological improvements, and restructuring. Privatized firms have been compared to and found to outperform state-owned enterprises. Alternative forms of ownership also have been tested to understand the impact of insider and outsider ownership on the micro-level of firm performance. Consequently, significant data have been gathered that offer some insight in the determinants of ownership, the patterns, and its effects.

The available survey data on ownership in Russian enterprises agree on the prevalence of insider ownership and the greatly diminished shareholding of the state. For instance, the Blasi Russian National Survey (1997) shows that in 1995 insiders held 58 percent, outsiders 32 percent, and the state 9 percent. The two later studies, the Economic Analysis (2000) and Russian Barometer (1999), vary widely in their findings on changes in insider ownership, showing 62 percent and 46 percent respectively. From comparisons between three surveys of the Russian Economic Barometer in 1995, 1997, and 1999 (Aukutsionek et al., 1998; Kapelyushnikov, 2000) one can conclude that shifts in the ownership distribution have led to a gain in the outsider's share, while workers and the state have lost.

**Table No. 2.2 -- Ownership Structure in Russian industry**

Unweighted, in per cent					
Survey / Data	Bureau of Economic Analysis (2000)	Russian Economic Barometer (1999)	Blasi et al. (1996)	Nottingham Sample (1995-1996)	World Bank Bank Sample (1994)
<b>Owner</b>					
<b>Insiders</b>	<b>62.3</b>	<b>46.2</b>	<b>58</b>	<b>59.6</b>	<b>66.1</b>
Managers	17.7	14.7	18	14.0	19.6
Workers	34.5	31.5	40	45.6	46.2
<b>State</b>	<b>5.7</b>	<b>7.1</b>	<b>9</b>	<b>9.3</b>	<b>15.0</b>
<b>Outsiders</b>	<b>32.0</b>	<b>42.4</b>	<b>32.1</b>	<b>31.3</b>	<b>18.9</b>
Individuals	N.A.	18.5	6.6	5.5	9.0
Non-financial firms	N.A.	13.5	15.3	10.3	6.7
Banks	N.A.	1.0	1.6	1.5	1.0
Investment funds	N.A.	3.9	5.4	6.4	0.5
Foreigners	N.A.	2.0	1.6	1.0	0.4
Holdings/Investment companies	N.A.	3.5	2.6	5.4	0.0
Others	0.0	4.3	0.9	1.7	0.0
Sample size	364	139	357	314	439

Data sources: *a* Kuznetsov et al. (2001), survey among privatised enterprises, Kapelyushnikov (2000), Blasi et al. (1997), Filatotchev et al. (1999), Earle and Estrin (1997).

The significance of insider dominance increasingly is evaluated in a larger framework.<sup>54</sup> However, the findings usually linked predominant insider-ownership (workers and managers together hold more than 51 percent of the voting shares) to failures in Russian enterprises to undertake critical tasks that improve economic efficiency and productivity. Alternatively, when outsiders (individual citizen investors, foreign firms, banks, investment funds, and domestic firms) hold a controlling majority ownership, firm performance is improved significantly. Generally, insider privatization was viewed as a potential obstacle to overall economic growth.<sup>55</sup>

<sup>54</sup> Angelucci et al. (2002), using data from a large enterprise-level panel designed to address the determinants of privatized enterprise performance in Russia, find strong commonalities between four factors influencing improved company performance: enterprise ownership; corporate governance; market structures and competition; and financial constraints. This has led to further research that considers these factors jointly.

<sup>55</sup> See Joseph R. Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca and London: Cornell University Press, 1997); John Earle and Saul Estrin, "Employee Ownership in Transition," paper presented to the World Bank-Central European University Conference on Corporate Governance in Central Europe and Russia, December 1994 (revised February 1995); John

Likewise, the pattern of insider and outsider ownership is related to two issues regarding income distribution that I explore below: (1) the relations between property divestment and income distribution and (2) the relationship between insider ownership and issues related to bureaucratic capitalism.

## **B. Income Inequality in Russia (1992-1998)**

All postcommunist countries conducting economic transformation experienced increases in inequality. Differences in the magnitude of inequality varied; Russia had one of the largest overall increases accompanied by a highly skewed distribution of wages and income. Below, Table 2.3 outlines changes in the Gini coefficient to compare changes in income distribution in Russia.<sup>56</sup> Some inequity in income already existed in 1992. Russia began the period of economic transformation with a Gini at .29. During its first phase of reforms, inequality rose by 11 points .to .40 between 1992 and 1994.

The changes in income patterns reflected the massive changes in the economy. Hyper-inflation, production declines, and recession framed social change. On the level of the individual household, the loss of savings, and unemployment were juxtaposed with new

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S. Earle, "Post-Privatization Ownership Structure and Productivity in Russian Industrial Enterprises" Stockholm School of Economics, Central European University paper presented at ACES-ASSA meeting January 28, 1998; Johns S. Earle, "After Voucher Privatization, Ownership and Productivity in Russia's Industrial Enterprises," Presentation to the EECR Russian Economics Conference, Moscow December 13, 1997; Kathleen Pistor, "Privatization and Corporate Governance in Russia: An Empirical Study," in Michael McFaul and Terry Perlmutter eds., *Privatization, Conversion and Enterprise Reform in Russia*, (Stanford: Center for International Security and Arms Control, Stanford University, 1994); Andrei Shleifer, and Viktor Vasilyev, "Managerial Ownership and the Russian Privatization," paper presented to the World Bank-Central European University Conference on Corporate Governance in Central Europe and Russia, December 1994, revised 1995; L Webster, J.Franz, I.Artimov, and H. Wackman, "Newly-Privatized Russian Enterprises: A Survey," World Bank Technical Paper No. 241, October 1994.

<sup>56</sup>The Gini coefficient takes on values between 1 and 0. A value of 0 indicates perfect equality. Pre-transition coefficients in most post-communist countries were around .25 comparable with the Scandinavian countries.<sup>1</sup> The United States in comparison had .4 indicating fairly high levels of inequality. Post transition Gini coefficients have increased ranging from .2 in Slovenia to .5 in Ukraine.

opportunities. For the average Russian, income improvements came as a result of increased activity in the informal gray economy, housing privatization, and lower barriers to entry for entrepreneurial activity.

Despite the new opportunities, income levels of the lower and middle strata did not improve. Between 1992 and 1998, the poorest groups in the economy remained remarkably stable; they benefited little from economic change. The third and fourth quintiles, representing the middle class, showed a decline rather than an expansion of wealth that would be expected with privatization benefiting enterprise employees.

The skewed distribution attests to the capture of assets by the upper income strata. The fifth quintile, the wealthiest group, shows a general increase from initially holding 38 percent of the wealth in 1992 to 48 percent in 1998. The greatest jump in income disparity took place in 1993 and 1994, immediately following the implementation of mass privatization.

**Table No. 2.3 Distribution of Household Income by Quintile Groups**

	1992	1993	1994	1995	1996	1997	1998
First Group							
(Lowest Income)	6.0	5.8	5.3	5.5	6.2	6.0	6.2
Second	11.6	11.1	10.2	10.2	10.7	10.2	10.6
Third	17.6	16.7	15.2	15.0	15.2	14.8	14.9
Fourth	26.5	24.8	23.0	22.4	21.5	21.6	21.0
Fifth Group							
(Highest Income)	38.3	41.6	46.3	46.9	46.4	47.4	47.4
Gini Coefficient	0.289	0.398	0.409	0.381	0.375	0.391	0.379

*Source:* Nodari Simonia, "Russia" in Vladimir Mikhalev in UN/UNDR project *Income Distribution and Social Structure During the Transition*, 1999 pp. 8-25. citing from *Russia in Figures 1999*



### C. Privatization and Income Inequality

The relationship between privatization and inequality represents a relatively new area of research in the study of transition economies.<sup>57</sup> Privatization is linked to issues of equity and wealth through the distributive and redistributive mechanisms of the divestment process.<sup>58</sup> In other words, the distribution of assets contributes to new sources of income. General increases in inequality manifest themselves irrespective of choice of policy strategy. Vladimir Mikhalev (1999) writes, that “while privatization can follow different paths (re-privatization, insider privatization, voucher distribution, public auctions, sales to foreign companies, barriers to entry etc.) in all cases it can be expected to increase the share of private profits in total income.”<sup>59</sup>

Privatization can be related to income distribution through the choice of strategy, and the subsequent pattern of ownership. The policy alternatives -- vouchers, asset sales, employee or management buyout -- can contribute to a more or less equitable income structure. Each policy has properties that can restrict or enable access to the average citizen's ability share in the new

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<sup>57</sup> The relationship between inequality and privatization is open to debate. See S. Commander, A. Tolstopiatanko, and R. Yemstkov, “Channels of Redistribution: Inequality and Poverty in the Russian Transition,” *Economics of Transition*, vol 7. no.2 June 1999 for the difficulties of evaluating the effects of privatization on inequality. Contrary to popular perception, Commander et al. (1999) observe that Russia entered the transition with significant inequality, which increased sharply after the transition began. By the end of 1996, they note that Russia was roughly comparable to Mexico, Colombia, or Malaysia in terms of wealth inequality. Wealth transfers through privatization appeared to have contributed significantly to this increase, but changes in government expenditure and a sharp growth in earnings dispersion were also important. To overcome the methodological barriers involved in evaluating the relationship, the World Bank and European Bank for Reconstruction and Development have supported research that can produce a more systematic approach to understanding of privatization and income inequality.

<sup>58</sup> See *Making Transition Work For Everyone: Poverty and Inequality in Europe and Central Asia* (Washington D.C.: The World Bank, 2000). Economic reform is measured through an index that is sensitive to whether progress on is made on parameters regarding competition, the regulatory framework, financial reforms, economic growth as well as the transference of assets through large scale, small scale privatization as well as estimates of contribution of de novo firms to GDP. State capture attempts to measure -- by indicators such as ownership concentration, the level of subsidies to corporations and the presence of corporate governance laws to protect minority shareholders, -- levels of bureaucratic corruption and rent-seeking. The other major variables that influence income distribution concern the level of economic growth, government transfers and the structures of taxation.

<sup>59</sup> Mikhael Mikhalev, “Overview Inequality and the Transformation of Social Structures 1998-1999” in UN/UNDR project *Income Distribution and Social Structure During the Transition*, 1999 pp. 1-45.

sources of wealth. Mikhalev (1999) argues that “if access to new private property income and hence capital incomes is limited to a minority of the population, privatization may lead to an increase in inequality and social polarization.”<sup>60</sup>

The Russian mass privatization program carried out between late 1992 and 1994 had two distinguishing features: the distribution of vouchers to the public, and preferences given to company insiders, with the latter by far the more important. Therefore, the next section, while not testing the “access thesis,” makes some observations regarding the access of Russian citizens to property through their use their vouchers.<sup>61</sup> Then, I examine insider privatization and policy type as possible causal determinants of inequality.

### **1. The Russian Population, Ownership, and Inequality**

In 1993, Russian citizens redeemed 149 million vouchers; as a consequence 40 million Russians now own shares. According to Blasi et al’s *National Russian Survey* (1997), 44 percent of Russians receiving vouchers used them for investment purposes. Of 149 million citizens who received vouchers, about 12 million (8 percent) used vouchers to buy shares at their place of work. Another 9 million (6 percent) used voucher to buy shares in other enterprises, and 45 million (30 percent) invested them in voucher investment funds.<sup>62</sup> Most Russians (58 million), however, sold their vouchers or gave them away.

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<sup>60</sup> Ibid.

<sup>61</sup> General inequality in comparison to the Soviet era, followed just as result of small-scale and housing privatization. Small-scale privatization of shops and housing (as well as the informalization of the economy and the lowering of barriers to entry), as Milhaev argues, sharply increased the number of capital asset owners rose sharply; profits, self-employment share of entrepreneurial and property income in total monetary personal income rose between 1990 and 1996 from 11.2 to 45.4 percent. See also *Goskomstat*, (Moscvva, 1997) pp. 1-73.

<sup>62</sup> Joseph Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca and London: Cornell University Press, 1997) 1997, pp. 76-78.

As previously noted, the Blasi's (1997) study finds that enterprise employees who made 10 to 15 percent of the population ended up owning 58 percent of the stock in 1996. All other Russians received ownership of only 11 percent of the stock -- 6 percent as individuals and 5 percent through voucher funds. A very small group of citizens who control Russian firms -- less than one percent of the population -- ended up with 11 percent of all the stock in 1996 (Russian banks and financial industrial groups).<sup>63</sup>

In sum, there is some evidence that many Russians became shareholders. Equally, there is evidence that access was restricted dampening possible equity effects from mass privatization.<sup>64</sup> In addition, most studies argue that the value of the property per individual was negligible; it did not provide a meaningful source of income or ownership control.<sup>65</sup> Because of the lack of rules regulating and protecting minority shareholders, many Russians failed to attain the material benefits of their investments.

## **2. Insider Privatization and Income Inequality**

Below I draw upon one of few systematic studies to explore the relations between insider privatization and income distribution. McHale and Pankov's (1999) study is particularly useful because it offers a cross-national comparison of countries in the region. Table 2.4 below,

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<sup>63</sup> Ibid. pp.78-82.

<sup>64</sup> See *Making Transition Work For Everyone: Poverty and Inequality in Europe and Central Asia* (Washington D.C.: The World Bank, 2000); John McHale and Alexander Pankov. "Post-Communist Privatization and Wealth Distribution: What Do We Know?" Harvard University and World Bank. Unpublished, 1999.

<sup>65</sup> Other reasons given for why mass voucher privatization failed to result in a more equitable distribution of assets include: (1) vouchers only accounted for about 20 percent (on average) of enterprises privatized during the initial stage (about 14,000 enterprises); (2) the public by and large did not or could not take full advantage of their vouchers in purchasing equity in enterprises; (3) workers and managers had first shot at enterprise shares. See John Nellis and Nancy Birdsall, "Winners and Losers: Assessing the Distributional Impact of Privatization" Working Paper No. 6 Center for Global Development May 2002 for a detailed assessment of this issue in worldwide perspective.

summarizes their findings. The categories represent a correlation between privatization method, ownership, and inequality. The findings show that method per se does not appear to be related to inequality. Aside from anomalies that characterize voucher privatization, strong foreign participation, independent of method correlates with low inequality. However, employee preferences embedded within a specific method is negatively correlated with income equality.

The theoretical explanation for Russia's income disparities thus concerns the relationship between insider privatization and strong administrative intervention as well as non-transparency in transactions. Insider control also had a negative impact on formal earnings because it slowed restructuring. Conversely, in the Czech Republic and Hungary (as well as Estonia and Poland), the linkage is made between sales to outsiders, a valuation of enterprises at fair market value and higher levels of significant enterprise restructuring. Further, countries with predominant outside owners experienced smaller declines in the wage share (e.g., a smaller collapse of formal incomes) and a smaller increase in the share of the unofficial economy -- both of which have been associated with smaller increases in income inequality.

**Table No. 2.4 Choice of Privatization Strategy and Inequality Outcome**

Core privatization strategy	Inequality outcome	
	Low	High
<b>Voucher-based privatization</b>		
Equal Access	Czech Rep. (P); Latvia (P); Lithuania (P); Slovak Rep. (S) Rep. (P)	Armenia (P); Bulgaria (S); Kazakhstan (P); Kyrgyz
Preferences to insiders		Armenia (S); Azerbaijan (P); Georgia (P); Moldova (P); Russian Fed. (P)
<b>Sales to outsiders</b>		
Large foreign participation	Estonia (P); Hungary (P)	
Little foreign participation		Slovenia (S) Azerbaijan (S); Bulgaria (P); Czech Rep. (S); Kazakhstan (S); Latvia (S); FYR Macedonia (S); Moldova (S); Russian Fed. (S)
<b>Insider buyouts</b>		
EBOs*	Croatia (P); Poland (P); Romania (P); Slovenia (P)	Kyrgyz Rep. (S)
MBO**	Hungary (S); FYR Macedonia (P); Slovak Rep. (P)	Georgia (S); Estonia (S); Russian Fed. (T); Ukraine (P); Uzbekistan (P)
<b>Other</b>		
(restitution, liquidation)	Czech Rep. (T); Hungary (T)	Estonia (T)

Note: P is primary strategy; S, secondary strategy; T, tertiary strategy.

Source: EBRD (1999); McHale and Pankov (1999).

\* Employee buyout

\*\* Management buyout

In McHale and Pankov's (1999) chart, Russia is located in the category that links voucher strategies, insider privatization, and high levels of income disparity. The correlation was approximately -0.67. As already noted, insider privatization in Russia accounted for approximately 58 percent of ownership. Within the category of insider ownership, workers held 48 percent, while managers 21 percent of the shares. The research on insider privatization argues that the differences in shares held by employees and management is inconsequential. Although workers may hold the majority shares of a firm, they do not necessarily control it. For instance, Blasi and Vasiliev (2000) found that managerial employee influence on decision making was low, independent of the form of ownership.

The question remains as to whether the patterns of ownership vary according to the privatization options offered by the State Privatization Program. The 1992 Russian privatization law offered three options as a means to participate in the State Privatization Program. In addition, lease buyouts were permitted and became an important channel for employee ownership. The Russian National Survey of 1994-1995 found that Option Two (offered 51 percent preferential shares to employees) had been chosen by 53.54 percent of the firms, Option One (only offered 25 percent employee ownership) by 37.42 percent, and Option Three by 1.32 percent; 7.62 percent of firms had been privatized under the 1991 law.<sup>66</sup>

Given the different Options offered in the 1992 State Program, Table 2.5 shows some variation in ownership patterns. However, the variation appears small (only few percentage points), except in the category of managerial ownership.<sup>67</sup> Enterprises that chose Option One as the formula for privatization had the least insider owners; managers held a lower percentage than in Option Two or Option Three. Enterprises that chose Option Three had the highest percentage of insider ownership. However, insider ownership in this instance is consequential, because firm restructuring was prerequisite to ownership.

The more striking difference is between the percentage of insider ownership in the lease-buyout arrangements and the State Privatization Program. Lease-buyouts were a holdover from the late Soviet period. In this category, the overall insider share is 90.6 percent; employees held 61 percent and managers 28 percent. Outsiders represent only 8 percent in contrast to

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<sup>66</sup> Joseph Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca: Cornell University Press, 1997).

<sup>67</sup> In 1994, managerial and overall insider ownership within the State Privatization Program is the highest for Option Three. But Option Three is more linked to the positive effects of privatization, because of the restructuring first prior to sale requirement. Where Option Two in the State Program permitted a high of 65 percent insider ownership, all insiders according to this study ended up with 57.7 percent; workers with 38.9 percent and managers with 18.9 percent. Given the possible correlation between insider ownership and inequality, Option One appeared to most limit managerial shares at 12.3 percent.

approximately 20 percent in the State Program. While this does not minimize the problems that stemmed from the consequences of the State Program, the higher levels of insider ownership in the earlier privatization as compared to the mass privatization program illustrates that some constraint was imposed upon the managers and their preferred policy outcome.

**Table No. 2.5 Ownership Structure by Method of Privatization**

Shareholding (percent of all shares)	Method of Privatization				All	Privatized	All Old
	Option 1	Option 2	Option 3	Lease buyout	SPP	Firms	Firms
TOTAL STATE	25.0	17.9	8.3	1.5	20.4	15.0	38.0
TOTAL PRIVATE	75.0	82.1	91.7	98.6	79.7	85.03	62.0
<b>All Insiders</b>	54.1	57.3	68.4	90.6	56.3	66.1	48.2
Workers	41.8	38.9	41.7	61.6	40.1	46.1	33.5
Managers	12.3	18.3	26.8	28.7	16.2	19.70	14.3
<b>All Outsiders</b>	20.9	24.8	23.2	8.0	23.3	19.0	3.8
Individuals	4.2	8.4	13.3	3.7	6.9	6.0	4.3
Institutions	16.3	16.0	9.9	4.2	16.0	12.6	9.1
Banks	.2	1.7	.0	.7	1.1	1.0	.7
Investment Funds	7.9	4.4	5.5	1.7	5.8	4.6	3.3
Other Domestic Firms	7.5	9.4	4.4	1.8	8.6	6.6	4.8
Foreign Investors	7	.6	.0	0	.6	4	3
Valid N	61	102	3	66	166	232	319

SPP stands for State Privatization Program of 1992

Source: Earle, John S. "After Voucher Privatization, Ownership and Productivity in Russia's Industrial Enterprises," Presentation to the EECR Russian Economics Conference, Moscow 13 December, 1997 p. 35.

#### **D. Bureaucratic Capitalism in The Russian Federation**

Nodari Simonia (2001), the Chair of Russia's prestigious research institution IMEMO, defines bureaucratic capitalism as "a specific variant of 'primary accumulation' done with an active participation of, and initiated by, state bureaucracy."<sup>68</sup> Bureaucratic capitalism features political and administrative elites who have the power to control and to restrict market behavior. Further, property rights in bureaucratic capitalism are ill-defined and/or poorly-enforced. As such bureaucratic capitalism is considered to be as unfavorable for the institutionalization of market relations. Because it implies administrative control of the market, this type of capitalism is considered to be favorable for activities such as rent-seeking and corruption.<sup>69</sup>

Following the literature on state capture and partial reform,<sup>70</sup> Simonia (1999) attributes the rise of bureaucratic capitalism to the dominance of managerial insider ownership. The theory assumes that a significant portion of the nation's productive capital was controlled by the top level of management rather than rank and file employees. Empirically, the dividing line is whether the managers not only possessed core blocks of majority shares, but also concentrated control in their respective firms.

State capture thrives when concentrated economic interests confront a weak state without sufficient accountability or control mechanism. Bureaucratic corruption is expected to follow.

Firms often attempt to "capture the state by using private payments to public officials as a way to

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<sup>68</sup> Nodaria Simonia, "The Formation of Bureaucratic Capitalism in Russia (1992-1998)" *CIAO Online Journals*. Vol. 32. No. 1, 2001. *CIAO* date 08, 2001. (<http://www.ciaonet.org/oli/socsci/socsci.01sin01.html>).

<sup>69</sup> Boris Nemtsov viewed bureaucratic capitalism as a phenomena manifesting at the local level in "rust-belt cities" and Moscow. Whereas oligarchic capitalism described the national political economy, in this system "money, property, and political power are concentrated inside a bureaucratic system." There are a great many private companies, but their future depends on their relation with these bureaucratic forces and groups. Boris Nemtsov, "An Interview with Boris Yeltsin's Favorite Son," *Business Week Online*, February 23, 1998.

<sup>70</sup> See Joel Hellman, Geraint Jones, Daniel Kaufman, and Mark Schankerman, "Measuring Governance, Corruption, and State Capture: How Firms and Bureaucracies Shape the Business Environment in Transition Economies" Policy Research Working Papers No. 2312 (Washington D.C.:World Bank, 2000).



influence the design of policy, and the content of legislation, rules, and decrees.” Through these efforts, firms can distort the legal framework in effort to gain large rents -- to the detriment of the rest of society. In all post-communist economies this phenomena has been observed to a greater or lesser extent.

Russia is cited as a salient example of bureaucratic capitalism and the state capture phenomena. Insider ownership overall is considered a contributing factor. The evidence outlined in above sections, supports the bureaucratic capitalism thesis to the extent that insider ownership thrived following mass privatization and continued to do so through the year 2000. Insider ownership is a necessary condition. However, for the theory to hold there also has to be an extremely high level of political power and wealth to be concentrated in the hands of well-placed business elites. Along these lines, the European Bank for Reconstruction and Development’s (EBRD) *Strategy for the Russian Federation* (2002), documented that the national monopolies together with a half dozen privately held national industrial groups control over half of the country’s GDP. The discussion below traces the rise of the financial industrial conglomerates and explores the FIG’s role as a pillar of bureaucratic capitalism.

## **1. Financial Industrial Groups**

The bureaucratic capitalism model is linked to the privatization of state industries, the Soviet banking system, and government-endorsed industrial policy that gave rise to numerous financial-industrial groups (FIGs).<sup>71</sup> The FIGs began to emerge during the late Soviet era prior to the Yelstin administration. However, Yelstin facilitated the trend with his decree of November 16, 1992. The decree approved measures governing the activities of holding companies.

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<sup>71</sup> Financial industrial groups usually consist of three elements drawn from different industries: (1) the financial segment (investment, insurance, trust, and real estate companies; banks; pension funds; and computerized accounting and deposit centers); (2) the industrial segment (enterprises-producers, suppliers, and construction business); and (3) the trading segment (marketing, brokerage, consulting, law, advertisement, and transportation firms, as well as warehouses).

According to these measures, ten holding companies such as Gazprom, Russian United energy system, YuKOS and so on were authorized to do business. Moreover, Gazprom developed into a FIG by establishing private banks such as Gazprombank and acquiring a share of the Imperial Bank. Leaders of military industries, who were confronted with economic difficulties after the collapse of the USSR, also planned to introduce officially registered FIGs in order to receive assistance from the government. Their lobbying efforts resulted in a Presidential Decree of December 5 1993 allowing "official FIGs".

Initially limited in the scope of their operations, FIGs expanded their holdings and political influence dramatically between 1993 and 1998. A small number of FIGs created vast empires centered around investment banks and various industries. While there is little conclusive data, unofficial estimates indicated that these firms controlled a significant portion of the Russian economy.<sup>72</sup> Led by the so-called "oligarchs," there is evidence that such organizations have exercised considerable political influence, especially between the re-election of Boris Yeltsin in 1996 and the financial crisis of 1998.

To illustrate their centrality to the Russian political economy in the mid-1990s, Russian industrial empires often are compared to the Keiretsu of Japan or companies such as the Financial House of Morgan or Standard Oil in the United States in early part of the twentieth century. The industry-led FIGs ostensibly were formed as a managerial strategy to maintain control over the firms and reduce the risks of doing business during the unsteady period of transition. The bank-led FIGs were formed when Russia's largest banks began to acquire shares

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<sup>72</sup> *Making Transition Work For Everyone: Poverty and Inequality in Europe and Central Asia* (Washington D.C.: The World Bank, 2000).

in newly privatized businesses. A common pattern that emerged was hierarchical; bank and the core enterprises were at the top of the FIG structure surrounded by commercial interests and/or industrial holdings.

The linkage between large-scale privatization and the flourishing of these groups comes from the acquisition of shares and the establishment of interlocking directorates. The share acquisition necessary to establish the conglomerates can be traced to Presidential decrees in the early 1990s and the Loans-for Shares Program in 1996.<sup>73</sup> The increasing number of financial industrial groups contributed to the trend of hyper-concentrated ownership and wealth in Russia.

For example, the companies with concentrated stakes (20 to 40 percent held by top managers) grew substantially in 1995 and 1996. By 1996, financial industrial groups owned more than 49 percent of one percent of all Russian companies. Russian banks owned more than 28 percent of one percent, and foreign firms owned 51 percent of one percent of all Russian companies.<sup>74</sup> In November 1996, there were already 39 officially-licensed FIGs incorporating more than 500 industrial enterprises and 87 financial institutions (including 37 banks).

The Financial-Industrial Groups (FIGs) apparently have shaped the Russian economy, society, and politics. Originally privatized industrial or banking concerns, FIGs have grown to encompass both industry and banking, and in the process developed networks of interest representation that include politicians, media outlets, and private security forces (Jensen, 1998, p.4). Nearly all of the FIG oligarchs have served the government in some capacity. During the

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<sup>73</sup>The “Loans for Shares” program consisted of agreements with large banks. The banks offered the government loans, while the government provided shares as collateral, which would be returned when the debts were repaid. Expecting that the government would be unable to repay the loans, bankers stipulated that if the loans went unpaid, the banks could auction the stocks and yield a net return to the government. These auctions, which were meant to be competitive, were essentially closed to loans for shares insiders, who obtained the shares for only a small amount more than the original loans. These arrangements favored those who established themselves in large banks, in particular Menatep and Sberbank.

<sup>74</sup> Joseph Blasi, Maya Kroumova and Douglas Kruse, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca and London: Cornell University Press 1997), p. 56.

late 1990s all have retained a relationship with, and the patronage of political allies. A few of the larger FIGs are more important than the rest, not necessarily due to the nature of their operations, but because of their privileged origins in the Soviet era, and their close relations with high level government employees and political patrons (Jensen, 1998:4). All of the major FIGs have had links to both the administration and the legislature; however, there are ideological divisions among their leadership.

#### **E. Summary: The Degree and Kind of Property Change**

I began this chapter with an analysis of Russian law making. I concluded that despite the most pessimistic expectations, the preparatory and framework laws necessary to launch privatization was accomplished in six months by June 1992. Presidential power, legislated statutes, and policy entrepreneurship played a central role in this outcome. Presidential decrees appeared to be most effective when exercised as part of a cooperative policy strategy endorsed by parliament. Under conditions leading to the constitutional crisis between the two branches in 1993, decrees were central to the completion of mass privatization.

The degree of property change concerned the divestment of large-scale industrial privatization through mass privatization. The findings showed that reformers achieved the corporatization and privatization of 16,000 out of the initial target of 23,000 enterprises. The forceful implementation of mass privatization was ensured through the establishment of local state property committees followed by auctions in 86 of Russia's regions. Privatization included the manufacturing sectors, oil, and gas. Russia's key achievement was that mass privatization lessened the probabilities that the gains made in the transformation of property ownership could be reversed in the future.

The kind of change relates to the impact of mass privatization on income distribution and capitalist development. The high levels of preferential shares to employees within the 1992 State Program and the decision to transfer vouchers appear linked to two persistent and problematic issues -- dominant employee ownership and hyper-concentrated stakes in the largest enterprises (often controlled by enterprise managers). Numerous studies have documented a strong correlation between ownership and enterprise performance. Dominant insider ownership appears to hinder enterprise restructuring, profitability, and corporate governance. In turn, these problems, in part, are linked to Russia's poor economic growth during the mid-1990s.

In evaluating the relationship between post-privatization ownership and income distribution, the research literature is only at a nascent stage. Thus, the findings only suggested how privatization might effect income distribution and wealth in Russia following mass privatization. Without a regulatory framework protecting property rights and equal access to vouchers, mass privatization did little to improve the overall income distribution. Dominant insider ownership and the concentration of ownership in the hands of enterprise managers proved to be correlated to overall income inequity. More significant was the trend toward highly concentrated insider ownership in extremely large enterprises. While the data is inconclusive, Russia's highly skewed income distribution and bureaucratic capitalism appear related to the rise of large-scale conglomerates.

Given my focus on the institutional determinants of policy change, an important issue is whether a direct connection can be established between governmental actions (policy choices given the array of institutional constraints), insider privatization, income inequity, and bureaucratic capitalism. John Earle's (1997) research indicates that most managers chose option two in the 1992 State Privatization. However, option two's consequences for ownership structure appear inconclusive relative to the other two options. That is, option one and option three also

produced patterns of dominant insider privatization (although there were small differences in the degree to which to this was true). Thus, insider privatization should be seen as creating necessary but not sufficient conditions for inequity. However, it can be documented that through the use of presidential decree, the president made the conscious choice to advance the development of large industrial conglomerates. These decisions appear to have played a large part in the emergence of bureaucratic capitalism and severe income inequity.

In the next chapter, I examine the powers distribution thesis as a possible explanation for Russia's privatization patterns. To explain Russia's pattern of law making requires an evaluation of the constitutional distribution of roles, competencies, and authority of institutional actors. I use a two-step model; the first step reveals the pattern of institutional actors as power-wielders, while the second step explains legislative productivity by situating the key actors in the executive and legislative branches within the broader institutional context.

### **Chapter Three**

#### **Institutional Determinants of Russian Privatization**

#### **The Distribution of Constitutional Powers**

In Chapter Two, I presented Russia's privatization outcomes -- the pattern of executive strategies, subsequent laws, and the volume of divestment of state property. I also outlined some of the apparent consequences of mass privatization -- the predominance of insider privatization, inequality, and bureaucratic capitalism. Further, I suggested that the outcomes can be viewed as a function of specific policy decisions. While the Russian President's strategy of statute and decree accomplished the degree of change, the use of presidential decrees gave impetus to high levels of inequality and bureaucratic capitalism.

In this chapter, I explore the institutional determinants of executive decisions and law making. In particular, I examine executive activism within the logic of "separation of powers presidentialism" between 1991 and 1993.<sup>1</sup> According to Article 1, of Russia's interim constitution "democracy, federalism, the republican form of government, and the separation of powers will be the immutable bases of the constitutional order in Russia." Article 3 notes that

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<sup>1</sup> The concept of "separation of powers" structures two debates regarding the Russian Federation. The first debate concerns whether Russia's amended 1978 constitution or the 1993 constitution postcommunist constitutions fulfilled the requirements of the separation of power doctrine. As Russian constitutional scholar Yakovlev interprets the doctrine, it refers to a clear separation of executive, legislative, and judicial functions among the branches. In offering critiques of Russian post-communist governance as guided by the interim 1978 RFSFR Constitution, Alexander Yakovlev as well highlights provisions that retained Soviet legacies; these articles invariably provided for the fusion of power rather than its separation. The doctrinal debate overlaps with discussions regarding practical institutional designs to accomplish power separation. Raymond Taras notes in this respect, the "rule of law" version defines the debate in postcommunist countries, especially regarding the issue of presidential powers. The debate is normative rather than empirical in tone. As Taras notes the "rule of law" interpretation was based on "the difference between making and applying law which was the original distinction in the legislative and executive branches of government." Further he notes, "what is required is that discretionary actions be taken and legal rules made by the executive within limits set by more general known laws made by a legislature not subject to the will of the executive." For a full discussion on the powers doctrine, see Raymond Taras, "Separating Power" in Raymond Taras ed. *Postcommunist Presidents* (Cambridge: Cambridge University Press, 1997) p.23-37.

“state power in the Russian Federation is exercised on the basis of its division into legislative, executive, and judicial authority.” It also states that the delineation of state authority will be divided among the numerous levels of government present in the Russian Federation.

As previously noted, Russia’s leadership failed in 1991 to draft a new constitution that incorporated the separation of powers doctrine. My analysis of Russia’s political system is premised on its presidential system of governance, two-tiered parliament, and federalism. Russia’s political system, therefore, displays the characteristics consonant with power separation; agenda-setting, policy-deciding and policy-blocking powers were distributed to more than one actor.<sup>2</sup> Policy making was divided among more than one actor seeking to maximize power in pursuit of their respective policy goals.

This chapter consists of four sections. In Section I, I use methods derived from comparative constitutional analysis (Shugart and Carey, 1992)<sup>3</sup> to assess the overall distribution of power in Russia’s 1978 amended constitution. Following the written text, I identified eight policy actors in Russia’s executive and legislative institutions. Nonetheless, my findings indicate that the power distribution in the Russian political system was bipolar; further it appears that the tight hierarchic organization left over from the Soviet era constrained most actors other than the top leadership.

In Section II, I proceed to investigate the multicameral aspects of Russia’s constitution. As such I evaluate the constitutional provisions for the bicameral Supreme Soviet, the Constitutional Court as a check on presidential power, and the federal structure of the Russian state. Tentatively, the findings show that bicameralism, per se, was not central to privatization

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<sup>2</sup> My discussion here is based on Thomas Remington’s conceptualization of Russia’s political system in Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001).

<sup>3</sup> See Matthew S. Shugart and John M. Carey, *Presidents and Assemblies: Constitutional Design and Electoral Dynamics* (Cambridge: Cambridge University Press, 1992).



decision making nor was Russia's Constitutional Court. By contrast, Russia's federal state structure emerged as central to the ongoing calculations of executive decision making. However, the capacity for regional elites to constrain or skew policy outcomes appears more related to the implementation of privatization, rather than the law making phase.

In section III, I restrict my focus to the constitutional distribution of non-legislative powers. Tentatively, this section draws the conclusion that the president was strong in his proactive powers; the legislature's strength came from its inordinate control over the survival of the president and its reactive powers. Then, in Section IV, I apply these insights in constructing how the strategic implications of these power configurations might have shaped the overall capacity for policy change. While I give some attention to the earlier phases of privatization legislation, my empirical focus is the adoption of the State Privatization Act of 1992.

## **I. Russian Presidentialism and the Separation of Powers**

My analysis begins with a baseline measure of executive power. I use Shugart and Carey's index as modified by Hellman and Frye for transition countries.<sup>4</sup> The executive powers index is a summed score representing the legislative powers and the non-legislative powers of presidents and prime ministers. Legislative powers refer to the chief executive's decree, veto, and agenda-setting powers in the legislative process. Non-legislative powers refer to the appointment and dismissal powers, censure, investiture, parliamentary dissolution and impeachment; they represent the constitutional limits placed on the separate origin and survival of the executive and the parliament. The score derives from a list of 11 legislative and nonlegislative presidential (prime ministerial) powers, each of which is measured based on a scale of 0 to 4.

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<sup>4</sup> In the Shugart and Carey study, the actual legislative powers of 40 popularly elected presidents ranged from 0 to 12, and the nonlegislative powers range from 0 to 16. See Matthew S. Shugart and John M. Carey, *Presidents and Assemblies: Constitutional Design and Electoral Dynamics* (Cambridge: Cambridge University Press, 1992).

Using Hellman and Tucker's criteria (see appendix two), my calculation yielded a score of 9 for the Russian president's legislative powers and 7 for non-legislative powers. The score on the legislative powers reflects the president's restricted right of introduction in the legislature and his decree power with the force of law overriding all existing legislation. The Russian President only had a weak veto whereby he could only return legislation back to parliament for reconsideration. I scored the appointment and dismissal powers with 3 points each to reflect the absence of investiture. Usually, this would rate a score of four. However, I reduced the score because the appointment without investiture or parliamentary approval was temporary and the president was forced to give them up to some extent by December, 1992.

**Table No. 3.1: Comparative Index Non-legislative Powers**  
(1990-1992)

Country	Russia	Hungary	Czechoslovakia
Cabinet formation	3	3	2
Cabinet Dismissal	3	3	2
Censure P.M.	0	4	2
Dissolution Parliament	0	1	1
Impeachment	1	N/A	N/A
	7	11	7

**Table No. 3. 2: Comparative Index Legislative Powers**  
(1990-1992)

Country	Russia	Hungary	Czechoslovakia
Amendment	0	2	1
Veto	1	N/A	N/A
Decree	4	3	1
Referenda	1	N/A	0
Initiation	3	3	3
Budgetary	0	0	0
	9	9	5

To estimate a country's position on the separation of powers continuum, I created a composite index. I began with the summed executive powers index. Then, I factored in the effects of multicameralism -- bicameralism, federalism, and the Constitutional Court. The further divisions of state power are expected to dampen an activist policy stance on the part of the chief

executive. As the executive and legislative powers, each dimension is assigned a score between 0 and 4. I deduct that score for each dimension that substantively represented a constraint on executive power. Russia thus begins with a score of 16, but the composite score is 10 (see Appendix B for a detailed rationale for the scoring).

**Table No. 3.3 Comparative Index Multicameralism 1989-1992**

	<b>Hungary</b>	<b>Russia</b>	<b>Czechoslovakia</b>
Judicial Review	4	1	0
Bicameralism	0	1*	4***
Federalism	0	4**	2
Total Score (out of 12)	4	6	6

\* Scores are premised on more on the Congress of People's Deputies than the two-chambered Supreme Soviet.

\*\* Scores are premised on the Chamber of the People, and the division of the Chamber of the Nations into two separate voting blocs Czech side and Slovak side.

\*\*\* Privatization required implementations, on level of republics and other territorial divisions, the lower score assigned to Czechoslovakia refers to implementation within the two states.

#### **A. Russia and the Distribution of Powers Continuum**

On the hypothetical powers continuum, Russia's total score of 10 places it between Hungary and Czechoslovakia. With a score of 16, Hungary represents the most majoritarian of the three countries. With some minor exceptions, the Hungarian the executive and legislative powers were concentrated in the executive. As my comparative discussion of Hungary later notes, only the Constitutional Court was capable of constraining and challenging the executive. By comparison, Czechoslovakia's score on the powers continuum is 6. The Czechoslovak political system was characterized by a diffusion of the executive and legislative powers across the branches. In addition, Czechoslovakia also had a federal structure. Further, parliamentary tricameralism came into effect when important votes were taken regarding constitutional amendments or other major legislation related to the transition.

The separation of powers continuum below graphically illustrates the distance between the three cases in this study. Using Hellman and Tucker's executive powers index, (without calculating for the effects of multicameralism). I also indicate the potential placement of the wider universe of post-communist cases.



**Figure: 3.1 Separation of Powers Continuum**

## B. The Powers Distribution Thesis

Majoritarian parliamentism promotes change in the policy status quo through centralized constitutional arrangements believed to favor effective governance. On the hypothetical continuum of power separation, governmental authority is concentrated through the following: (1) the origin and survival powers -- a one to two actor policy model, (2) the prime minister's control over the executive, the appointment of cabinet ministers and the relative concentration of powers over legislation, and (3) the unitary state.

In Russia, the separation origin and survival provisions constituted power among multiple actors; the legislative powers reflected power-sharing, and federalism created access to subnational governments. Without further investigation, the formal fragmentation of power appears to predict a conservative bias toward policy change. Maintaining the policy status quo of state-owned property was the more likely outcome. However, Russia's placement on the continuum of power reflects some variation that explains how fragmented institutional

configurations can overcome the associated collective action dilemmas. Russia had a strong president and apparently an equally strong parliament. Thus, policy deadlock was still a possibility. However, the more likely outcome was policy change through presidential prerogative, negotiated compromise, or some combination of the two strategies.

Below, I begin my analysis by examining the origin and survival provisions of the amended version of the Constitution of the RFSFR of 1978. One purpose is to ascertain the general pattern of power distribution. Among the details provided by Russia's interim constitution, I seek to identify which actors were authorized as participants in decision making. In addition, the constitution will us which actors were empowered as agenda setters, policy deciders, and policy blockers.

### **C. The Origin and Survival Powers: Russia's Multi-actor Decision Structure**

The interim Russian Constitution divided power among seven institutions. The legislative institutions included the Congress of People's Deputies (Section 85-104), the Supreme Soviet (Article 87-107) including its upper and lower houses (Section 112), and the Presidium of the Supreme Soviet. The executive institutions included the President of the Russian Federation (Section 13<sup>1</sup>, Article 121<sup>1</sup>), the Prime Minister and Council of Ministers (Section 14-122).<sup>5</sup> Each potentially had some authority to act as an agenda-setting and/or veto actors at different stages of the policy formation and legislative processes.

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<sup>5</sup> A possible seventh actor was the Vice President, Alexander Rutskoi. Because the office fundamentally was devoid of executive and legislative powers, it was inconsequential in privatization policy formation.

## **1. The Legislative Institutions: The Congress of People's Deputies**

Russia in 1992 had a two-tiered legislature; the legislature was structured as a hierarchy of authority.<sup>6</sup> At the top of the legislature structure was the Congress of People's Deputies. As noted in the Russia's amended 1978 constitution, the Congress of People's Deputies was "the supreme body of governmental authority in the Russian Federation."<sup>7</sup> Article 104 granted significant powers to the popularly elected CPD, bolstering its legitimacy and authority. Among these powers, the Congress was responsible for (1) the adoption of the Russian Constitution and amendments to it;<sup>8</sup> (2) the determination of domestic and foreign policy;<sup>9</sup> (3) the ability to changes to the borders,<sup>10</sup> and (4) the approval of long-range state plans and major programs of economic, social, and military development of the Russian Federation.<sup>11</sup>

The Congress of People's Deputies other claim to legitimacy came as the result of being Russia's first popularly elected representative institution. With Russia's first popular elections in March 1990, the CPD consisted of 1,068 members<sup>12</sup> elected to five-year terms.<sup>13</sup> It convened twice a year, usually in April and December. Extraordinary sessions could be called at the initiative of the Supreme Soviet, one of its chambers, the Presidium or the chairman of the Supreme Soviet, one-fifth of the People's Deputies of the Russian Federation, the President of the Russian Federation, or any republic in the Russian Federation.

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<sup>6</sup> In 1992, the structure of the legislative institutions of the Russian Federation included: the Congress of People's Deputies; the Supreme Soviet; the Presidium of the Supreme Soviet; and the Chairman of the Supreme Soviet, who also served as Speaker of the Congress of People's Deputies. Thomas Remington, (New Haven: Yale University Press, 2001) p.84.

<sup>7</sup> Article 104.

<sup>8</sup> Article 104-1.

<sup>9</sup> Article 104-2.

<sup>10</sup> Article 104-5.

<sup>11</sup> Article 104-6.

<sup>12</sup> Chapter 13, Article 5.

<sup>13</sup> Chapter 10, Article 86.

## **2. The Supreme Soviet, Chairman of the Supreme Soviet, and The Presidium**

The Supreme Soviet was the second tier of the legislative structure; its deputies were chosen from the member of the Congress of People's Deputies. The Supreme Soviet consisted of two chambers the Council of the Republic (the lower house) and Council of Nationalities (the upper house); each chamber had 126 deputies as members. The two chambers were formally equal, but each were assigned different areas of legislation. The Council of the Nationalities was restricted to issues regarding federal arrangements and ethnic issues, while the Council of the Republics dealt with legislation related to the broader issues of political, social, and economic reforms.

In addition, to the functional differences, the two chambers were distinguished by the method of election. The deputies of the Council of the Republic were selected from people's deputies elected in equal-sized electoral districts throughout the country. In contrast, the members of the Council of Nationalities were selected from the deputies elected in national-territorial electoral districts.<sup>14</sup> The two chambers, therefore, had different constituencies and electoral mandates.

The Supreme Soviet was the working legislative institution directly accountable to the Congress of People's Deputies.<sup>15</sup> Article 107 of the Constitution of the Russian Federation empowered the Russian Supreme Soviet with "legislative, directing, and controlling" functions.<sup>16</sup> The Supreme Soviet was charged with adopting laws and law codes, which could not contradict laws and other acts adopted by the Congress of People's Deputies. In terms of the division of

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<sup>14</sup> Per Article 107, three deputies were selected from each republic; one deputy from each autonomous region and each autonomous area; and sixty-three deputies from the provinces, the administrative regions of the Russian Federation, Moscow, and St. Petersburg.

<sup>15</sup> Article 107.

<sup>16</sup> The legislative function referred to law making, controlling to oversight, but the "directing" function reflected a Soviet era legacy that suggests its power superseded executive institutions.

labor, the Congress of People's Deputies dealt with constitutional issues while the Supreme Soviet considered legislation such as the economic reforms. The Supreme Soviet's accountability to the CPD signified the primacy of the Congress of People's Deputies in the hierarchy of legislative institutions.<sup>17</sup>

The Presidium of the Supreme Soviet was the third tier of the legislative bodies. The Presidium was a coordinating institution that had had wide powers to coordinate and manage the legislative process; it set the agenda for both the Congress of People's Deputies and the Supreme Soviet. In addition, the Presidium and its Chair Rhuslan Khasbulatov managed both chambers of the Supreme Soviet, the joint sessions between the two chambers, and joint sessions between the Supreme Soviet and the CPD. The Presidium was comprised of its chairs and deputy chairs of the Supreme Soviet itself, the chairs of its two chambers, and the chairs of the committees of the Supreme Soviet and the reconciliation commissions of its individual chambers.<sup>18</sup> Thomas Remington captures its importance by noting that "it was the central coordinating body for the entire legislative system."<sup>19</sup>

The Chairman of the Supreme Soviet also chaired the Presidium to coordinate the legislative work and agenda of the Supreme Soviet. According to Article 113, the Chairman of the Supreme Soviet was elected by the Congress of People's Deputies for a five-year term, and for no more than two consecutive terms. Importantly, the Chairman of the Supreme Soviet also served as Speaker of the Congress of People's Deputies. Article 115 established the line of accountability: the Chairman was responsible to the Congress of People's Deputies and could be

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<sup>17</sup> See Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001).

<sup>18</sup> Ibid. p. 85.

<sup>19</sup> Ibid, p.128.



replaced by the Congress at any time. The Chairman also was accountable to the Supreme Soviet. In part, the Chairman's power and status had derived from his election by the CPD instead of the Supreme Soviet.

### **3. Executive Institutions: The President as Head of the Executive**

In spring 1991, one year after the emergence of the legislative institutions, Russia took its first steps toward a separation of powers system. Through a national referendum, the Russian people overwhelmingly chose presidential institutions as the core of the executive branch of governance. Borrowing from the United States' constitution, the presidency was accompanied by the Office of Vice-president.<sup>20</sup> Shortly, thereafter, Chairman of the Supreme Soviet and radical reformer, Boris Yeltsin became Russia's first elected president. Direct elections by popular vote endowed upon the officeholder nationwide legitimacy as Russia's leader.

Constitutional amendment 121<sup>2</sup> provided for a five-year, fixed term; the president was to serve no more than two consecutive terms. Article 121<sup>1</sup> empowered the President as "the highest official in the Russian Federation and head of the executive branch of government." The president was Head of State, Commander in Chief of the Armed Forces, and Chairman of the Security Council. Within the executive, the president was given the sole right to determine the institutions of executive power, including strict subordination of lower-level executive agencies to higher level agencies. Through constitutional amendments that included the legislative delegation of special powers, the Office of President became equal in stature and authority to the Congress of People's Deputies and the Supreme Soviet.

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<sup>20</sup> Article 121<sup>2</sup> Section 7.

#### **4. A Divided Executive: The Prime Minister and Council of Ministers**

The Russian executive, as in Hungary and Czechoslovakia, was bifurcated. The Constitution also provided for the Office of Prime Minister, who served as head of government. The Prime Minister (e.g., the Chairman of the Council of Ministers) was nominated by the president and approved by the Congress of People's Deputies. The Chairman was responsible to parliament; the Congress of People's Deputies could censure the Chairman with a vote of no-confidence. The Council of Ministers served as the state's main policy making institution.<sup>21</sup> The President and the Prime Minister controlled its formation and composition, while the legislature's role was limited. However, the Chairman of the Council of Ministers and the Council of Ministers were subordinate to the president in the structure of the executive.

Because of the dominance of President, the competition for executive power (between head of state and head of government) did not emerge in Russia as in the two Eastern European countries. The President's administration and the Council of Ministers often worked in tandem. The President was charged with setting the national agenda, political matters, and military and foreign policy. The government was the policy-making arm charged with economic matters. The Russian Government managed the ministries and designed the policies necessary for transformation including the privatization program, and actively participated in obtaining its legislative adoption.

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<sup>21</sup> According to Article 122, The Council of Ministers of the Russian Federation -- the Administration of the Russian Federation -- were an executive body accountable to the President of the Russian Federation. The Council of Ministers were responsible for the formulation and implementation of economic and social policy, including credit and monetary policy, culture, science, education, health, social security, and ecology. The government also managed federal property and was charged with fighting crime.

In other words, during the early 1990s, the division of labor provided a foundation for cooperative inter-executive relations.<sup>22</sup> However, tensions did arise when the President used the cabinet as a lightning rod to deflect criticism. Further, the President's tended to replace cabinet ministers within the reform team to build his own political support base; this practice undermined the ability of the reform team to generate a coherent policy direction. In this respect, the President's support of the Deputy Prime Minister in charge of privatization proved critical to the completion of mass privatization.

## **5. Summary**

The constitutional mapping of institutional actors, their roles, and competencies indicates some semblance of a functional division of powers. This would lead us to expect a multi-actor configuration shaping privatization legislative decisions. However, the origin and survival powers with a fixed term parliament and executive led to a bipolar distribution of power. This pattern stems from the two organizational hierarchies of legislative and executive authority.

The President and his designated agents were at the top of the executive. For the initiation of privatization legislation, the key actor, as the agent of the President, was the Chair of the State Committee of Privatization, Deputy Prime Minister Anatoly Chubais. The Congress of People's Deputies was the ultimate legislative authority. However, the CPD dealt more with deliberating new constitutional issues, adopting constitutional amendments, and the future of Russia's political regime. The CPD played a crucial oversight role in the areas of economic reform. Otherwise, the Congress played a peripheral role in the actual drafting and adopting of privatization laws. The Supreme Soviet instead was the center of legislative activity. By contrast,

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<sup>22</sup> Beginning in 1994, the sharing of powers became unstable. The Council of Ministers failed to establish its full viability so that there was a constant struggle over power and policy. While the president Boris Yeltsin used the government as a lightning rod to deflect criticism of unpopular policies, he has also been uncomfortable with any assertions of political independence by the Prime Minister. The effect has been to deprive the government of the backing it needed to build the coalitions necessary to implement its program.

Rhuslan Khasbulatov -- the Chairman of the Supreme Soviet, Chair of the Presidium, and Speaker of the Supreme Soviet -- influenced privatization legislation through his agenda-setting responsibilities.

The core of my argument is developed around the interactions between the executive and legislative institutional actors. Before proceeding, however, I complete my examination of possible policy actors that had constitutional authority to participate in privatization legislation and its implementation. The possibilities included the Council of Nationalities (the upper house of the Supreme Soviet), the Constitutional Court, and regional governments.

## **II. Multicameralism: Bicameralism, The Constitutional Court, and Federalism**

Multicameralism in Russia normally would be expected to lead to a long and protracted legislative process. The two most likely sources of policy veto actors would stem from the bicameral structure of the Supreme Soviet. The Council of Nationalities had a different electoral mandate than the Council of the Republic, its policy mandate was restricted to ethnic issues and policy related to regional interests, exclusive of economic reform. The deputies of the Council of the Republic, by contrast, had a national mandate creating incentives for an interest in the broader transition agenda of transition to a market economy and privatization. If differences between the two chambers manifested themselves, the issues were resolved through reconciliation commissions. However, the process itself would have greatly extended the legislative timeline.

The interests of the regions could also be expressed through the executive and legislative institutions that governed Russia's 89 subjects. The capacity for the regions to influence law making and policy decisions at the center, however, came from their representation in the

Congress of People's Deputies and Supreme Soviet. While the next chapter deals with this issue in more detail, for now it can be said that it appears that local interests were superseded by materially-based ideological positions on the question of economic reform.

The Constitutional Court in Russia, as in Hungary, needs to be viewed as a check on executive power since the court had judicial review. The discussion below shows, however, that although it played a role in 1993, the court did not serve as a veto actor ex-ante to privatization decision making. As such, while influential the court did not appear to structure the incentives and calculations in decision making. By contrast, Hungarian policy makers at critical junctures had to judge the possible impact of the Constitutional Court prior to and following the legislation of major policy initiatives.

In the discussion below, I give more attention to the question of why within the larger configuration of Russia's policy making institutions, the Council of Nationalities and the Court did not emerge as policy actors. I also note that the executive used constitutional prerogatives to constrain the regions. In addition, the executive sought to expand its powers resources through the State Committee for the Management of State Property (GKI).

#### **A. Bicameralism and Privatization Policy**

The Supreme Soviet was bicameral; each house was formally equal. Governmental and socioeconomic matters were given priority in the lower chamber, while issues connected with the regions and equality of nationalities were the domain of the upper house. To pass a bill, the legislative process required the approval of both the lower house, the Council of the Republic, and the upper house, the Council of Nationalities; this required that securing the votes of the majority of deputies in line with quorum requirements. In theory, the requirements of passage in both houses could limit legislative dynamism. Collective action dilemmas were likely given the

different mandates, constituencies, and policy domains of each chamber. However, there appears to be little support for this argument in the research conducted on legislative productivity, the writings of the privatization team, or the literature on economic reform.<sup>23</sup>

A simple test regarding the influence of the upper chamber is to examine the dynamics of the policy making during the legislation of the Privatization Act of 1991 and those of the 1992 State Program. The 1991 Program was legislated in the immediate aftermath of the election of Yeltsin as the new President. The two houses of the Supreme Soviet had yet to elect a new chairman elected to replace Yeltsin. Piotr Philipov, the Chairman of the Privatization Committee of the lower house of the Supreme Soviet, oversaw the process of legislative adoption. Alexander Radygin, who served as an advisor to the GKI, has offered some insight regarding the dynamics of the Supreme Soviet this time.

Following Alexander Radygin's (1995) account, the structural division in the Supreme Soviet became the source for competition among institutional actors.<sup>24</sup> Proposals were presented by the government, the lower house, and upper house; each submitted its own vision of whether privatization should proceed, the methods for conducting privatization, and the distributional implications of the act. The upper house, not surprisingly, given that it was structured to represent the regions, authored a fundamentally conservative approach; it stressed collective

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<sup>23</sup> For insights on legislative process see Jeffrey W. Hahn, "Studying the Russian Experience: Lessons for Legislative Studies," in Jeffrey W. Hahn ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk, NY: M.E. Sharpe, 1995) pp. 241-251; Jerry F. Hough, *The Logic of Economic Reform in Russia* (Washington, DC: Brookings Institution Press, 2001); Mikhail G. Myagkov and D. Roderick Kiewiet, "Czar Rule in the Russian Congress" *Legislative Studies Quarterly*, Vol. 21, February 1996, pp 5-38; Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001). For insights on legislative process and privatization see Anders Aslund, *How Russia Became a Market Economy* (Washington D.C.: The Brookings Institution, 1995); Alfred Kokh, *The Selling of the Soviet Empire: Politics and Economics of Russia's Privatization -- Revelations of an Insider* (New York: Liberty Publishing House, 1998); Maxim Boycko, Andrei Shleifer, Robert Vishny, *Privatizing Russia* (Cambridge, MA: MIT Press, 1995).

<sup>24</sup> Alexander Radygin, *Privatization in Russia: Hard Choice, First Results, New Targets*. (London: CRCE-The Jarvis Print Group, 1995). <http://www.iet.ru/personal/radygin/4htm>.

forms of privatization and created new entities known as “people’s enterprises “ (e.g., ownership by the work collective). The liberal, lower house offered a package that consisted of a combination of privatization methods (investment deposits, direct sales of shares, tenders, and auctions) but emphasized private forms of property rights.

The passage of the 1991 State Program was accomplished, but only through a high cost negotiated bargain. At the time, the leadership considered the Privatization Act a major breakthrough. However, the final provisions in the 1991 law reflected the multiple and contradictory concerns of the government, the conservative deputies from the regions (the upper house), and radical liberal deputies who populated the lower house. In addition, while the lower house’s proposal formed the core of the bill, the legislation was inoperable because contradictions in the bill could not be finessed into a workable formula.

Other than Radygin’s (1995) account, there does not appear to be any further documentation regarding the interactions between the two houses as a source of Russia’s privatization policy dilemmas. According to Chubais, the 1992 State Program was approved by the upper house without the need for a reconciliation commission, and it came as a formal step within several days of adoption by the lower house.<sup>25</sup> It can be argued that the difference between the events of 1991 and 1992 came from the Chairman’s firm control over legislative activity in the Supreme Soviet.

## **B. The Constitutional Court**

The Constitutional Court of the Russian Federation was established in 1991. The Congress of People’s Deputies selected 14 out of the 15 judges. The judges themselves elected the chairman of the court. In accordance with the Statute on the Constitutional Court,<sup>26</sup> the

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<sup>25</sup> Anatolii Chubais “Kak Mwii Probivalii Nashy Programmy,” in Antatolii Chubais ed. *Privatizatsiia Po Rossiiski* (Moskva: Vagrius, 1999) pp. 74-78.

<sup>26</sup> Article 165.

court's jurisdiction included the examination of the constitutionality of domestic legislation and international treaties, judicial and administrative practices, political parties and the behavior of top leadership, especially the president and vice president. The statute endowed the Court with strong powers including judicial review.<sup>27</sup> It proclaimed the court's independence and excluded any outside influence. The Constitutional Court also had the right to initiate legislation in the Parliament. All the court's decisions were final and not subject to appeal or review.

The Russian Constitutional Court did not appear to have taken an active role in privatization until 1993 as part of the greater conflict between the president and parliament. The branch ministries, together with conservative factions in the Congress of People's Deputies, together tried to block the creation of a private property regime by challenging the legality of the process. In 1993, the Congress of People's Deputies attempted to halt liberal property reforms through legislative channels. The parliament first attempted to annul presidential decrees issued to expand privatization. The parliament then attempted to transfer the administration of the Federal Property Fund from governmental control to the Ministries that opposed privatization. After these initiatives failed, the parliament tried to overturn presidential decrees by subjecting them to judicial review before the Constitutional Court. For instance, the Supreme Soviet declared that the presidential decree on guaranteeing citizens access to property was unconstitutional. The strategy ostensibly was to suspend further privatization until the Constitutional Court could review parliament's claims.

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<sup>27</sup> Article 165, Section 1.



## C. Federalism: Privatization Legislation and Programmatic Implementation

During 1992, Russia's federal structure held important implications for the immediate issues of legislating and implementing mass privatization. The Russian Federation consists of 89 components, including two federal cities, Moscow and St. Petersburg.<sup>28</sup> The constitution explicitly defined the federal government's exclusive powers, but it also described most key regional issues as the joint responsibility of the federal government and the regions.

### 1. Federal Structure and Legislative Issues

Russia's regions and territories could influence legislation through their constitutional rights regarding the legislation process. Article 110 of the interim Russian Constitution, for instance, gave the regions *the right to initiate legislation* "as represented by their supreme bodies of governmental authorities (republics, krais, oblasts, autonomous oblasts, and autonomous okrugs)." Regional representative bodies and governors could use Article 111 to call upon the Russian Supreme Soviet to subject legislative bills such as privatization to nationwide discussion. Further, the regions could limit the implementation of privatization through orders either from the local executive or legislative institutions (soviets). However, on matters of economic reform, the President could draw upon his formal constitutional right to strike down any legislation contradicting federal law.

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<sup>28</sup>Russia's 89 regions include: 52 oblasts (regions), 6 krais (territories), 21 republics, and 10 autonomous okrugs (districts). Each republic -- nominally the "homelands" of a non-Russian minority such as the Tatars and Bashkirs -- has the right to its own constitution and to elect its own president. Oblasts and krais are run by governors, most of whom were presidential appointees until elections became mandatory in 1996. Autonomous okrugs are ethnic subdivisions of oblasts or krais which have claimed special status either because they are very rich (for example, Yamal-Nenetsk in Tyumen, which has 53% of Russia's oil reserves), or because they are so poor they survive largely on federal financial support.

The regions also could affect the legislation of policy through their representation in the upper house of the Supreme Soviet and the Congress of People's Deputies.<sup>29</sup> At the First Congress of People's Deputies, regional deputies attempted to form factions that had a territorial basis. Although these groups met on a regular basis, only the Moscow group of 64 deputies met officially. By 1991, regional and territorial groups began to identify with specific political factions and blocs.<sup>30</sup>

The regions varied in terms of their ideological orientation, premised on historical, socioeconomic, and demographic factors. Geographic factors -- rural and urban, industrial and agrarian, light versus heavy industry cleavages among others -- also differentiated the deputies. However, regional deputies often were classified as conservative because they gave "disproportionate representation to remote rural -- and in practice, conservative -- areas, but the extent of the conservative bias was reduced by the fact that half of the latter were awarded to Russian oblasts as well as the cities of Moscow and St. Petersburg, with more populous units receiving more than one seat."<sup>31</sup>

Of the 1068 deputies elected to the Congress of People's Deputies, however, there were only 15.8 percent from national-territorial districts. The Council of Nationalities, the upper house of the Supreme Soviet, also could have been a likely source of regional, conservative bias. All of its 128 deputies were selected from national-territorial districts. Since there were only 168 deputies in the Congress of People's deputies elected from the regions, a very high percentage

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<sup>29</sup> Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001) pp. 125-129.

<sup>30</sup> See Jerry F. Hough, "Legislative Structure and Party Development," in Jeffrey W. Hahn ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk N.Y. And London, England: M.E. Sharpe, 1996) p. 97.

<sup>31</sup> Jerry F. Hough, "Legislative Structure and Party Development," in Jeffrey W. Hahn ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk N.Y. And London, England: M.E. Sharpe, 1996).

had to be elected to the Supreme Soviet. On legislation where the concurrence of the two houses was required, their influence tended to be magnified. As noted above, these deputies sought more or less to keep property within the work collective; the upper house only marginally influenced the legislation of the 1991 Privatization Act. Similarly, the regional deputies in the upper house appeared to have only tacit approval of a done deal regarding the 1992 State Privatization Program.

Regional-center relations, however, served as a constant background issue. The executive's management of federal issues was top-down. The president used decrees, provisions whereby he could strike down local laws contradicting federal privatization legislation and GKI's nationwide organizational structure. In the early phases of privatization, the Supreme Soviet also attempted to manage federal relations through decree. For instance, it was the Supreme Soviet that adopted the December 27, 1992 decree "On the Differentiation of State Property in the Russian Federation into federal property, the state property of the republics of the Russian Federation, territories, regions, autonomous regions, autonomous districts, the cities of Moscow and St. Petersburg, and Municipal Property."

Following the issuance of the decree, all property in the Russian Federation was divided into several groups. Distinctions were based on the level of power, but the federal government retained central control over the transferred property. The step of differentiating property was necessary to launch the program. Predictably, the division of property by jurisdiction also became the source of new conflicts as various levels of power struggled for property. Despite the urgency imposed by the decree, the overall process of privatization was delayed because a new list of enterprises needed to be compiled by the level of property. In addition to this decree,

the President approved an order on the composition of federal, state, and municipal property on an item by item basis and on the procedure for the registration of property rights. This document also set forth a complex procedure that threatened further delay

## **2. Federalism and Programmatic Implementation**

Regional actors could influence the pace of divestment through their participation in the complex processes of programmatic implementation.<sup>32</sup> Per the provisions of 1992 State Privatization Program, the participation of the republics and local authorities was required in the implementation of individual enterprise privatization plans. Article 3, Section 3 of the law, for instance, conferred upon the republics some decision-making power in determining which properties were to be included and excluded from the program. Local officials also participated in the approval of enterprise applications and plans, and in the decision making of privatization commissions; the local Soviet had final approval of the privatization plan.

At the local level, political officials elected in 1990 often were managers of large enterprises, chairman of collective farms, and other members of the nomenklatura opposed to privatization. To slow the process, in many areas regional officials set limits of ownership for citizens outside the region itself. Officials who did support privatization were described as “rentiers” rather than as entrepreneurs. State enterprises and collective farms served as the power base for local politicians to gain legal control over their already de facto property rights.

On balance, however, control over program implementation rested largely with the government and GKI. Parallel to the structure of the State Property Committee, the State Program Law created a series of local committees for the management of local state property attached to administrations of the constituent republics, territories, regions, autonomous regions,

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<sup>32</sup> “State Program of the Russian Federation for the Privatization State and Municipal Enterprises,” (Moskva: Goskomimushchestvo, 1992).

and the major cities. The GKI 's regulatory power was facilitated through its ability to issue orders (razporazhenii and polozheniie).<sup>33</sup> Compulsory plan targets were set for regional officials to meet in the privatization of enterprises. Monthly statistical reports also were requested from each region to encourage all of them to compete over quick transfers of property.<sup>34</sup>

Although most state property belonged to the central government, the role of local governments was important since they owned individual units involved in the small-scale program. Local politicians and bureaucrats also had assumed control rights in a number of the larger enterprises as a result of the reforms taken during the Gorbachev era. To overcome resistance, firms were sold as proprietorships for cash, usually by local governments; according to Boycko, Shliefer, and Vishney, giving the local governments the revenues from small-scale privatization was a means of bringing them into a coalition supporting mass privatization.<sup>35</sup>

The central government gave the republics some say in the approval of sectors of the economy to be included and excluded in the 1992 Program. However, the specifics of the law gave the government and the GKI an important means of control. For instance, the Council of Ministers (the government) had exclusive approval over the most important industries -- armaments industry, parts of the atomic energy industry, enterprises processing precious metals, the energy sector, commercial banks, communications enterprises, and the printing and publishing industry. Also, the State Property Committee (in consultation with the branch ministries) had exclusive approval over the privatization of enterprises that had a dominant

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<sup>33</sup> Anders Aslund, *How Russia Became a Market Economy*, (Washington D.C.: The Brookings Institution, 1995) p.247.

<sup>34</sup> Ibid. p. 247.

<sup>35</sup> Maxim Boycko, Andrei Shleifer, and Robert Vishny, *Privatizing Russia* (Cambridge, The MIT Press, 1995) p. 73.

market position, and enterprises with more than 10,000 employees or fixed assets with a book value (as of January 1992) of more than 150 million rubles.<sup>36</sup>

### **3. Summary: Multicameralism and Policy Change**

Of Russia's multicameral institutions, the most salient concerned the federal divisions of power. The Russian Constitutional Court authored some decisions regarding the Supreme Soviet's claims that certain privatization decrees were unconstitutional during the period of constitutional crisis. Otherwise, the Court was peripheral to privatization decision making. The bicameral structure of the Supreme Soviet was an innovation in Russia politics. In practice though, the activities of the Council of Nationalities were restricted to its area of policy competence -- ethnic and regional issues. In addition, the Chair of the Supreme Soviet constrained its activities through legislative mechanisms such as joint meetings, and take it or leave it, up and down votes. Therefore, bicameralism in practice did not greatly effect Russian politics during 1990-1993.

The few empirical examples outlined above only illustrate the possible effects of federalism. As such, I only can reaffirm the conclusions of some other studies.<sup>37</sup> Russia's regions registered their interests through the various executive and legislative bodies at the lower levels of government. The government used cooptation and accommodation to restrict its role in the law-making phase. The GKI used coercive mechanisms to force the regions' participation in mass privatization and voucher auctions.

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<sup>36</sup> See Roman Frydman, Andrzej Rapaczynski, and John Earle, *The Privatization Process in Russia, Ukraine and the Baltic States* (Budapest: CEU Press, 1993), Chapter Four.

<sup>37</sup> Joseph R. Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca and London: Cornell University Press, 1997); Rose Brady, *Kapitalizm: Russia's Struggle to Free its Economy*, (New Haven and London: Yale University Press, 1999); Maxim Boycko, Andrei Shleifer, and Robert Vishny, *Privatizing Russia* (Cambridge, The MIT Press, 1995); Anders Aslund, *How Russia Became a Market Economy* (Washington D.C.: The Brookings Institution, 1995); Alfred Kokh, *The Selling of the Soviet Empire: Politics and Economics of Russia's Privatization -- Revelations of an Insider* (New York: Liberty Publishing House, 1998).

Given these measures, the privatizers were able to forcefully implement the 1992 program in most of Russia's 89 regions. However, many instances were reported of local officials circumventing the law regarding whether a specific enterprise would be privatized and the choice of methods that would be used.<sup>38</sup> Federalism, therefore, appears as a fundamental source of state capture and income inequity; federal officials regularly took advantage of the weak state apparatus especially with the enforcement of property rights.<sup>39</sup> Regional representatives, rather than engaging in a frontal assault on the state program, pressed their advantage through opposition strategies during the implementation stage.

In sum, the various divisions of power within the Russian state -- the federal structures with its array of local governments, soviets and presidents -- were the most salient to executive and legislative decision making. However, the regions do not appear to have directly shaped executive activism or executive and legislative relations.<sup>40</sup>

### **III. The Distribution of Non-legislative and Legislative Powers**

Initially, the analysis of the interim 1978 Russia Constitution identified seven potential policy actors just within the executive and legislative branches. In Section I, the findings illustrated that the hierarchical organizational structure of both institutions reduced the number of institutional actors to two. In the executive, the key actor was the President and his agent, the Chairman of GKI. The key legislative decision making body was the Supreme Soviet and its agent, the Chairman. In section, II, the findings tend to discount bicameralism (the upper house of the Supreme Soviet), and the Constitutional Court. Federalism appeared to feed into the

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<sup>38</sup> Maxim Boycko, Andrei Shliefer, and Robert Vishny, *Privatizing Russia* (Cambridge: MIT Press, 1995).

<sup>39</sup> Joel Hellman, Geraint Jones, Daniel Kaufman, and Mark Schankerman, "Measuring Governance, Corruption, and State Capture: How Firms and Bureaucracies Shape the Business Environment in Transition Economies" Policy Research Working Papers No. 2312 (Washington D.C.:World Bank, 2000).

<sup>40</sup> The exception to this pattern took place in 1993, when both the executive and legislative branches sought to build a base of support from their corresponding institutions in the regions.

privatization decision making as design issues in the legislative process and the control of regional officials in the implementation phase. Below, the task is to define the relationship between the executive and legislative branches through the enumeration of the constitutional non-legislative and legislative powers.

#### **A. The Non-Legislative Powers: Appointment and Dismissal**

The Russian Constitution's assignment of appointment and dismissal powers gave the executive considerable leeway in government formation. Constitutional amendments passed on April 21, 1991, gave the President crucial appointment powers mostly unlimited by investiture procedures (the requirement for legislative approval). Article 121-5 gave the President the right to "direct the activity of the RSFSR Council of Ministers," "to appoint the Prime Minister with the approval of the Supreme Soviet" and "to appoint and dismiss ministers and heads of committees upon the recommendation of the Chairman of the Council of Ministers."

The president's exclusive appointment and dismissal powers facilitated the formation of a radical reform government. With the approval of the president, Deputy Prime Minister Yegor Gaidar recruited ministers as a general staff that controlled the Russian economy. In accord with the technocratic concept of governance, the aim was to have a team united with a sense of shared purpose and intellectual commitment to liberal economics.<sup>41</sup>

While the legislative institutions could not influence the appointment of individual ministers in the government, the Congress of People's Deputies still held considerable leverage over the president. The president nominated the candidate for office of prime minister, but the Congress was able to refuse to confirm and to censure. Yeltsin had initially conceived of the prime

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<sup>41</sup> Yegor Gaidar, *Days of Victory and Defeat* (Seattle and London: University of Washington Press, 1999) p 109.



minister's office as an agent of the president and accountable to the president. The linkage from the president through the prime minister to the government was viewed as an important means of control and coordination.

The CPD also appointed the Constitutional Court of the Russian Federation, the Procurator-General, the Chief Justice of the Supreme Court, and the Chairman of the Supreme Court of Arbitration.<sup>42</sup> The parliament's appointment provisions (along with its ability to submit any legislation to the Constitutional Court for review), significantly extended its influence over the judicial branch, and its appointment authority conceivably could be used as bargaining leverage in its relations with the executive.

## **1. Impeachment**

The articles governing impeachment in the interim Russian Constitution were the mechanism to remove the president. The rules for impeachment appeared to set a high bar. The decision to dismiss required a recommendation from the Constitutional Court and a two-third majority of votes in the Congress of People's Deputies. Impeachment could be initiated by the Congress, the Supreme Soviet, or one of its chambers.<sup>43</sup> The President of the Russian Federation was subject to removal from office if he violated any constitutional provisions, law of the Russian Federation or his oath.<sup>44</sup>

Impeachment of the president should have been limited to exceptional cases (after specific procedures have been followed). However, with ongoing constitutional conflicts governing executive and legislative relations, impeachment -- used as a policy instrument and/or

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<sup>42</sup> The Chairman of the Supreme Soviet also proposed to the Congress candidates for election members of the Constitutional Court and suggested to the Supreme Soviet candidates for election as the Chief Justice of the Supreme Court and the chairman of the Supreme Court of Arbitration; afterward, he recommended the same candidates to the Congress for confirmation.

<sup>43</sup> Article 121<sup>10</sup>.

<sup>44</sup> Article 121<sup>10</sup>.

as blackmail to extract a favorable decision from the president -- lost its exceptional character. The question of whether the Congress actually could have followed through is problematic; finding normal majorities for legislative work proved to be difficult. The two-thirds majority would require a considerable degree of consensus among the deputies.

## **2. Dissolution**

Consistent with presidential rule, the President did not have the right to dissolve the Congress of People's Deputies or the Supreme Soviet.<sup>45</sup> Article 121-6 specifically stated that the authority of the President of the Russian Federation could not be used to change the national-state structure of the Russian Federation or to suspend the activities of any lawfully elected government body, and if his authority were used in this way it must be stopped immediately. The President "has no right to dissolve or to suspend the activity of the Congress of People's Deputies of the Russian Federation, or of the Supreme Soviet of the Russian Federation"<sup>46</sup>

## **3. Censure Over the Cabinet and Prime Minister**

The interim Russian Constitution gave parliament the right of censure over the Council of Ministers (the government), and the Chairman of the Council of Ministers. Ordinarily, the Congress of People's Deputies or Supreme Soviet could secure the resignation of the government by a vote of no-confidence with a simple majority of the people's deputies in each chamber. However, the legislative institutions gave up censure of the cabinet as part of president's special powers that were intended to facilitate the economic transition.<sup>47</sup>

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<sup>45</sup> Article 121<sup>5</sup>, Section 11.

<sup>46</sup> Article 121, Section 5 and Article 121, Section 12.

<sup>47</sup> Article 109, Section 3 The Supreme Soviet also held investiture authority over the power ministries -- the appointments of the ministers of foreign affairs, defense, and internal affairs. In addition, the legislature was responsible for confirming the Central Electoral Committee, the appointment of the Procurator-General of the Russian Federation, and appointments to Russia's courts..

#### **4. Summary: Non-Legislative Powers**

The President's control over the cabinet, like his legislative prerogatives, were contingent on sustaining cooperative relations with the parliament. The key is that the powers of appointment and dismissal were temporary and delegated. The Supreme Soviet as the working legislature could not withdraw the President's powers. But the Chairman of the Supreme Soviet repeatedly attempted to initiate extra-constitutional proceedings at regularly scheduled sessions of the Congress People's Deputies. Likewise, the Chairman and other members of parliament deployed the threat of impeachment, called for the dismissal of the economic ministers, and demanded that the President appoint a Prime Minister favorable to the interests of the deputies. Despite the fixed term of the President and the President's appointment and dismissal powers, the distribution of non-legislative powers were concentrated in the parliament.

#### **B. The Distribution of Legislative Powers**

In the Russian amended constitution, the legislative powers appear to have been evenly distributed between the President and the Supreme Soviet. The legislative powers can be divided among two categories, proactive and reactive powers. Proactive powers included agenda setting powers, including the right of legislative initiative, special rights to proposal in the legislature, and decrees with the force of the law. Reactive powers included amendment and veto. Referenda can be either proactive or reactive depending at what juncture in the policy process it is invoked.

##### **1. Agenda Setting Powers**

In the Russia's constitution, formal agenda setting powers refer to the right of legislative initiative. Legislative initiative belonged to multiple actors including individuals, parties, and institutions. Article 110 of the interim constitution stipulated that: "the right of legislative initiative at the Congress of People's Deputies of RSFSR and the Supreme Soviet of the RSFSR

belongs to people's deputies of the RSFSR, the Soviet of the Republic, the Soviet of Nationalities, the Presidium of the Supreme Soviet of the RSFSR, the chairman of the Supreme Soviet of the RSFSR, the Committee of Constitutional provision of the RSFSR, the Council of Ministers of the RSFSR, autonomous republics in the person of their organs of state power, to krais, oblasts, autonomous oblasts among others.”<sup>48</sup> In addition to the core legislative and executive institution, regional governments and legislatures, and the Constitutional Court could submit proposals.<sup>49</sup>

Within the lower house of Supreme Soviet (Council of the Republic), the May 1990 temporary standard operating rules of the CPD permitted any group, faction, or bloc with the support of one-fifth of the full membership to bring proposals to the floor. The Supreme Soviet and CPD both established an Editorial Committee that also could propose legislation. The Chairman serving also as Speaker of the CPD could also bring proposals to the CPD by way of the Supreme Soviet.

Despite the multitude of actors who could submit a proposal, the chances for any proposed bill to become part of the legislative calendar were limited. In the Supreme Soviet, the Chairman and Presidium controlled the right of proposal through gate-keeping rules.<sup>50</sup> Successful legislation required Presidium support;<sup>51</sup> it had wide powers to coordinate and

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<sup>48</sup> *Vedomosti SND & VS RSFSR* No. 44 November 2, 1989, p. 869.

<sup>49</sup> Article 110, The Constitution of the RSFSR.

<sup>50</sup> See Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001) pp. 122-128. Gate-keeping included a set of filters “to keep the agenda manageable and to achieve wide agreement about what matters could be taken up and in what order, but the rules also protected the rights of individuals to take up scarce time with agenda proposals and motions to amend pending legislation. However, as Remington goes on, weekly Presidium meetings screened these out. Legislation was put on the legislative calendar premised on the “readiness of a piece of legislation,” or whether the bill was ready for the first and second readings in the Supreme Soviet. In addition to its technical preparation, a bill had to have some level official support. Among other criteria were a matter’s urgency from the perspective of the deputies, the president and government.

<sup>51</sup> *Ibid*, pp. 128-129.

manage the legislative process. The Chairman of the Supreme Soviet together with the Presidium controlled the legislative agenda.

Within the executive branch, the President, the Chairman of the Council of Ministers, and the Council of Ministers could propose legislation. Within the organizational structure of the executive, however, the President was the only actor who decided which proposals would be brought to the Supreme Soviet. More importantly, the Special Powers delegated to the President in November 1991 theoretically reduced the Supreme Soviet's ability to control its own legislative agenda regarding economic reform and privatization initiatives.

The special powers authorized that all laws pertaining to economic reform, regardless of their source, had to be cleared first with the president or submitted to parliament on his behalf. Therefore, the President could a priori coordinate the bills on economic reform. Practically, this meant deputies could not offer alternative proposals on privatization without the president's approval. In short regarding economic reforms, the president effectively held the exclusive right of proposal in the Supreme Soviet. In practice, the Chairman appears to have given deference to executive initiatives. Nonetheless, Khasbulatov kept in reserve his own constitutional agenda-setting and gate-keeping rights. As regards privatization, the Chairman permitted both debate and floor votes on alternative proposals to Chubais's proposed framework legislation for 1992.<sup>52</sup>

## **2. Law Making and Decree Powers**

In the 1992 Constitution, the legislative functions were divided unequally between the Congress and the Supreme Soviet. Only the Congress could adopt or amend the constitution, and

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<sup>52</sup> Anatolii Chubais, "Kak Mwii Probivalii Nashy Programmy" in Anatolii Chubais ed. *Privatizatsiia Po Rossiiski* (Moskva: Vagrius, 1999) pp. 74-102.

these decisions did not require ratification by the republics. To conduct normal law making in the Russian Federation, the Supreme Soviet adopted laws and law codes; the Supreme Soviet could not contradict laws and other acts adopted by the Congress of People's Deputies.<sup>53</sup> To guarantee the homogeneity of legal regulation throughout the territory of the Russian Federation, the Supreme Soviet was charged with the ratification of international treaties. In terms of domestic policy, the Supreme Soviet could revoke decrees and decisions of regional soviets.

Regarding statutory law (zakon), the Congress of People's Deputies and the Supreme Soviet was established by the constitution as the policy decider. Legislation could be passed or rejected with a majority of deputies present according to quorum requirements. While statutory law was the exclusive domain of the legislative bodies, these institutions as well as the executive also could use various forms of decree power.

In the hierarchy of Russia legislation, the highest act is a zakon or statute. Following the zakon is an ukaz (edict or decrees) that is a legal act carrying the weight of a statute (zakon); it is generally considered to be a binding, policy- making act.<sup>54</sup> It differs from a statute in that it regulates a specific case rather than general application of the law. An ukaz ranks higher in the hierarchy of rule making than other typical of binding acts postanovleniia -- decrees or resolutions that can be issued by the parliament or government. The lowest tier are regulatory ordinances (polozheniia) and orders (rasporiazheniia).

Thus, the legislature was preeminent when law making took the normal course of statutes. But its own delegation of special powers to the President in November 1991 greatly decreased its authority in policy making decisions. The law gave the President almost exclusive

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<sup>53</sup> Article 26.

<sup>54</sup> See Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001) p. 62.

law making authority in the area of privatization, property rights, land reform and economic reform in general.<sup>55</sup> The President's power to issue decrees (ukase) had the force of law.

Presidential decrees could override all current legislation. The Russian Supreme Soviet could suspend the decree for one week if a disagreement arose; otherwise, the legislature had little recourse.

Formally, the constitution did not give the prime minister and cabinet substantial powers. Article 127 of the constitution gave the Council of Ministers the power to issue only regulatory decrees and directives. In addition, the government oversaw their execution on the basis of and pursuant to the laws of the Russian Federation. The government also had a coordination function since it could suspend the decrees and directives of councils of ministers in the regions.<sup>56</sup> It also directed the work of the ministries and state committees.<sup>57</sup>

However, the power of the government or individual ministers was contingent on the substantial agenda setting and decree power of the president. The de jure powers of a cabinet minister were limited. But the de facto powers of cabinet ministers were contingent on their relationship to the president. As Donald Jensen (2001) describes the relations,

The president determines the strategic course of policy, but does not inject himself into the elaboration or micro management of policy once its general direction is set. While Yeltsin's advisors have often convinced him to change policy direction or have been the source of a particular initiative, it has been ultimately him whom they had to convince, and it has been ultimately Yeltsin who made the decision to heed them. Conversely, Yeltsin is able to prevent general policy initiatives by the government that he opposes.<sup>58</sup>

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<sup>55</sup> Other policy areas that now came under the strict jurisdiction of the executive included banking, stock, and commodities exchange, financial and currency regulation, foreign trade, investment, employment, customs, price regulation, taxation, and the executive branch.

<sup>56</sup> Article 128.

<sup>57</sup> Article 129.

<sup>58</sup> Donald Jensen, "Russia A Report -- 1998," *RFE-RFL Research Report*.

### **3. Amendment Power**

The Supreme Soviet had the power amend or change laws. In addition, the Supreme Soviet used an open amendment process. The amendment process followed the first reading.<sup>59</sup> A bill first was assigned to a lead committee. For privatization, the lead committee was the Committee for Privatization, a subcommittee of the standing Committee for Economic Reform. Thus, the Privatization Committee decided which proposed amendments to recommend for adoption and rejection. The legislation committee also could review the proposed amendments. The other committees signed off by signifying approval. If there were differences among committees, a reconciliation commission was formed that involved more negotiation or logrolls. At that juncture, the bill went to the second reading, where a floor vote took place (in both houses).<sup>60</sup>

### **4. Veto Power and Referenda**

The president had veto power, to the extent that Yeltsin had the right to return a law passed by the Supreme Soviet for changes prior to the expiration of a 14 day period. If returned to the president, the law must be signed within three days after its second passage by a majority vote in both houses of the Supreme Soviet.<sup>61</sup> The President, the Congress of People's Deputies, and the Supreme Soviet also had an unusual form of veto power extending from judicial functions that were left in the interim Amended Constitution of 1978. The president could suspend the official laws produced by the republics if they were contrary to the legislation of the Russian Federation. Likewise, the Supreme Soviet could annul decrees and orders of regional soviets.<sup>62</sup>

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<sup>59</sup> Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001) p. 125.

<sup>60</sup> Ibid p.125.

<sup>61</sup> Article 121<sup>5</sup>, Section 2.

<sup>62</sup> Article 109, Section 20.



Equally important, the constitution assigned the Congress of People's Deputies the right of rescission of decrees over both the Supreme Soviet and President. However, it is not clear whether the congress gave up this right when it delegated the special powers to the President. During 1993 the congress did assert this prerogative as part of the 'war of laws' leading up to the constitutional crisis. Otherwise, its effectiveness as a strategic instrument is ambiguous; there is no evidence to my knowledge that it was invoked prior to that time. Finally, the CPD also could make decisions on holding "a republic popular ballot" or referendum.

### **5. Summary: Distribution of Legislative and Non-legislative Powers**

From this reading of the constitution and the laws delegating special powers to the president, the following conclusions can be drawn. First, the President's delegated powers permitted him for one year exclusive control of the appointment and dismissal powers. The President, therefore, in theory could form the government independent of parliamentary deliberation. Second, the President had what added up to exclusive proposal of laws on economic reform. Although numerous deputies may have wanted to pass alternative versions of privatization legislation, they were required to clear it with the President first. This restriction at least made competing proposals unlikely.

Third, the most important power held by the President was his wide-ranging decree power. Presidential decrees could overrule all existent legislation. However, as my research in Chapter One indicates, the president used decree power in a more selective fashion. The choice of legislative strategy of decree or statute often depended on the executive's changing relations with the Supreme Soviet and the Congress of People's Deputies.

Finally, the president's veto, while a weak one, still placed constraints on the Supreme Soviet. The veto conceivably dampened deputy ambitions, if the Supreme Soviet attempted to either pass legislative alternatives to his decrees or proposals for statutes. In sum, the president controlled all the proactive legislative powers. However, the executive was vulnerable regarding the assignment and definition of censure, investiture, dissolution, and impeachment.

By contrast, the Supreme Soviet and Congress of People's Deputies held reactive legislative powers and important non-legislative powers. The deputies could hold the executive accountable through mechanisms such as reports, hearings, and bringing ministers before it for interpellation. The CPD held investiture power over the appointment of the Prime Minister; they could also censure the Prime Minister through a vote of no-confidence. The legislative bodies could begin impeachment proceedings against the president if deputies charged that he had broken Russian law (the misuse of his decree or appointment powers). By the end of 1992, the legislature had also regained investiture over the government appointments.

In terms of the legislative powers, the Supreme Soviet had the authority of legislating statutes and deciding policy through a majority vote of both chambers. The Supreme Soviet did initiate legislation through the standing committees. But the strict proposal requirements regarding economic reform meant the deputies were restricted to reacting to presidential legislation through the amendment process. If controlled by committees with different preferences, amendments were a potent instrument to move policy back towards the status quo. Note that the president did not possess a partial veto that known to be effective in fending off legislative amendments.

In addition to legislative amendments, committees could bottle up a piece of proposed legislation. The Chair of the Committee and the Chair of the Supreme Soviet controlled whether delays within committee could disrupt the legislative process. The leadership of the Supreme Soviet would more likely try to form a consensus around a passable version. If a bill strayed too far from the president's preferred policy, the president could veto it or, if time was pressing, issue a decree.

To summarize, the above discussion documents an interesting asymmetry in the distributive patterns of authority. In terms of the legislative powers, the president controlled the proactive legislative powers -- decree authority, proposal initiative, and veto. The legislature, as regards economic reform, held reactive powers. The Supreme Soviet could defeat presidential proposals through the legislative process or use its amendment powers to respond to presidential initiatives. However, in response the president could issue a decree. The difference in policy outcome was likely to be a statute and a decree. Without the president's decree power, the difference concerned changing and not changing the policy status quo.

To compensate for the president's dominance over policy, the legislative bodies could settle for negotiated outcome in the legislative process. Alternatively, if the president routinely circumvented the legislature, the CPD and Supreme Soviet could assert its rights through threats and attempts at impeachment or using the no-confidence mechanism. In the next section, I explore this asymmetry as a key causal variable that influenced the president's and privatization minister's ability to transform the property regime.

#### **IV. Institutional Incentives and the Strategic Premises of Law Making**

Russia's asymmetric power distribution should serve as a guide to the incentives each actor confronted in making a policy decision. Below, I explore the privatization law-making process as a set of interactions between the executive and parliament. To get an empirical grasp on institutionally shaped incentives, I restrict my focus to the President and Privatization Minister as the agent of President and the Supreme Soviet and its Chairman.

The discussion below is based on a constrained rational actor model. In this model, each actor chooses the strategy that maximizes his/her expected utility. The set of institutions in which the executive operates determines which strategy is available. The asymmetrical power distribution is used to predict what choices were possible during the different phases of privatization decision-making. For instance, the president's final decision to use a decree rather than statute depends on an evaluation or comparison of policy loss costs. In turn, the perceived cost-benefit ratio stems from whether the decrees were issued with the support of parliament. If the parliament opposed a presidential decree, the range of responses from parliament (given their assigned constitutional powers) becomes a crucial consideration. To begin, the discussion below outlines the predicted cost-benefits assigned to specific strategies.

The strategy that should carry the smallest risk was to seek a settlement of policy issues with parliament and within the framework of checks and balances (to the degree they existed) governing the country. The risks would be low since the executive would be signaling that he/she was willing to heed the interests and preferences of parliament. Given the complexities of

the Supreme Soviet legislation process, the possible costs to policy could be high and the outcome would be uncertain. In repeated play, depending on whether the president and legislature were on the same side of an issue, the negotiated outcome could move the outcome away from the ideal point

Legislative strategy rarely is as simple as submitting a bill to parliament. The executive powers may be used to manipulate the outcome given the extant rules of the game. Formal agenda-setting instruments, appointment powers, exclusive proposal to the legislature and decrees, should vary in terms of the cost-benefit ratio. In the postcommunist transitions, the executive (particularly if there was some power-sharing) relied on an agenda-setting strategy to initiate privatization. The implications will be discussed further below, but the executive leading from the front carried with it potential high yield in policy gains but also some risks related to policy effectiveness. The president linked his credibility to successful program implementation from the perspective of the parliament and public opinion.

First, control over the cabinet but with legislative investiture should be a low risk strategy for setting a country's policy course. Without legislative influence in the appointment of cabinet ministers, appointment power constitutes a presidential prerogative that could be used as part of a general pattern to circumvent the legislature, and as such carry potential costs. The risk can be high since it can engender conflict between the branches.

Second, exclusive proposal, the ability for the president to decide which economic reform proposals come before parliament should be a low-cost strategy. But the costs and benefits vary depending if whether the exclusive proposal becomes part of an overall strategy of executive unilateralism. Under these conditions, the costs can become high, especially if the Supreme Soviet could use legislative maneuvers to discount their importance.

Third, decrees used to increase the president's bargaining power with parliament, rather than circumventing parliament, were low-cost and could yield high gains. In anticipation of the president acting by decree, the Supreme Soviet would be expected to move closer to the president's position than otherwise.

Finally, decrees to set policy could be used unilaterally to change the policy status quo with the force of law. To circumvent parliament, these initiatives -- given parliament's control over the survival of executive actors -- were high cost. But decrees to legislate privatization carried with them a high degree of certainty in achieving the reformer's preferred policy.

Given this set of institutional incentives, we should be able to predict executive activism in the form of legislating by decree, instances of negotiated outcomes, and polarized conflict where only stalemate arises. The possible outcome for legislating the 1992 program thus was not the difference between changing or not changing the policy status quo. Rather, the outcome rested on whether the president would issue a decree or rely on a parliamentary statute.

The discussion below temporally covers the pattern of law making beginning in July 1991 through the June 1992 legislation of the State Program. In examining the limits of presidential strategies of legislating by decrees, I pay special attention to the legislature's high stakes brinkmanship during the three month period leading up to and including Sixth Congress of People's Deputies. Beginning in January 1992, the Supreme Soviet and Congress of People's Deputies instead of working with the normal channels of legislative politics asserted its leverage over the survival executive actors.

## **A. The President: Strong Legislative Powers and Weak Non-legislative Powers**

Russia's amended constitution and the delegation of special powers privileged the executive as the agenda setter through the proactive powers. The president's proactive powers permitted him to establish a new status quo using decrees (ukazy) without prior legislative approval. Alternatively, the president's agenda-setting powers provided leverage in the passage of legislation in the Supreme Soviet. Yeltsin's cabinet appointments, exclusive proposal over economic policy, and the preparatory legislation conducted by decrees increased, but did not ensure a favorable policy outcome in the legislature. Below, I examine the incentives and limits associated with each.

The agenda-setting literature tells us that the order or sequence of events can structure the outcome.<sup>63</sup> As an activity, agenda setting refers to the ability to keeping certain issues off table and putting others on. Influence over legislation is conferred by the capacity to identify certain topics as political issues (and not others) and certain proposals (and not others) to deal with these issues. The agenda setter therefore manipulates the outcome by setting the terms of the debate.<sup>64</sup>

The crucial point is that the executive's legislative powers created a leader-follower dynamic to privatization law making. The President along with his agent, Chubais as Privatization Minister, assumed the role of agenda-setters. Chubais and his team, in particular, defined the problem to be addressed, the alternatives available to deal with it, and the sequence

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<sup>63</sup> Frank Baumgartner and Bryan Jones, *Agendas and Instabilities in American Politics* (Chicago: University of Chicago Press, 1993); Kenneth Shepsle and Barry Weingast "Uncovered Sets and Sophisticated Outcomes with Implications for Agenda Institutions" *American Journal of Political Science* vol. 28 (1984) pp. 49-74.

<sup>64</sup> John Kingdon, *Agendas, Alternatives, and Public Policies* (New York: Harper-Collins, 1984).

in which options were going to be considered. By doing so they manipulated the context for future votes in the Supreme Soviet; the aim was to bias the final outcome in the direction of their own preferences.<sup>65</sup>

Applying agenda-setter theory to the legislation of privatization, one finds the Russian President in Fall 1991 with a clear interest in rapidly launching radical market reforms. The Russian President took immediate steps to define Russia's goals and objectives for the transition. First, the Russian President's personnel appointments signaled the radical approach he intended to take to resolve Russia's problems. By the end of October 1991, Yeltsin announced to a joint session of the Supreme Soviet his vision of economic transformation for Russia. By November 1991, the President had assembled a group of neoliberal economists to form the core of his government.

Thus, in October 1991, Yeltsin utilized his stature as Russia's first elected president and his popularity in public opinion polls to take the offensive. Cognizant of the constraints ahead, the Russia President, Deputy Prime Minister Yegor Gaidar, and Privatization Minister Anatolii Chubais proceeded to set the policy debate with neoliberal market prescriptions. For privatization, this meant a total transformation of Russia's property regime as the mechanism for change to a market economy.

Crucial degrees included all the laws that signaled enterprises that privatization was inevitable, informed the republics of the how property was to be divided, and the launching of small-scale privatization through the December 29, 1991 Basic Provisions. The Basis Provisions were used as an agenda setting instrument. These laws permitted Chubais to get out in front of the legislature by offering Russia some specific solutions; Chubais artfully framed the neoliberal

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<sup>65</sup> Morris P. Fiorina and Kenneth A. Shepsle, "Formal Theories of Leadership: Agents, Agenda Setters, and Entrepreneurs" in ed Bryan Jones, *Leadership & Politics* (Lawrence, Kansas: University of Kansas Press, 1989) pp. 17-41.



theory embedded in the law as the best strategy for privatization -- asset sales, individual ownership rights, auctions, and limitations on insider preferential shares. Anticipating further debate and the submission of the official framework laws, parliament tolerated the government's assertion of its radical policy orientation; an orientation that arguably was far to the right of the necessary number of Supreme Soviet deputies necessary to pass the proposed legislation. Up to the final reading on the state program, the executive held this advantage.

### **1. President: Decision Maker and Policy Decider**

In the early 1990s, the president could use presidential decrees as an option to create law that could override existing legislation. Once issued, decrees produce an immediate change in the legislative status quo. Negretto (2002) notes that decrees unlike "other forms of 'proposal power' such as submitting a bill to the assembly for an up-or-down vote or giving priority to government bills, increase the capacity of executives to promote policy change by constraining the assembly to choose among a given set of alternatives and/or under strict time limits."<sup>66</sup>

Of the president's proactive legislative powers, decree power provided high bargaining leverage with parliament, but varying degrees of uncertainty in policy and political costs. Historically, Russian leaders concentrated autocratic power. Yeltsin's extravagant use of decree power thus had the potential to bring charges that he was subverting Russia's transition. From a normative perspective, democratic theorists worried that the process of law making should not be in the hands of a "unipersonal and non-deliberative body like the Executive."

<sup>67</sup> In the struggle over power between the executive and legislative branches, decree power became the flash point for conflict to turn into confrontation.

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<sup>66</sup>Gabriel Negretto, "Government Capacities and Policy Making by Decree in Latin America: The Cases of Brazil and Argentina," presented to the Annual Meeting of the American Political Science Association, San Francisco, CA (September 2001) p. 5.

<sup>67</sup> Ibid. p.5.

Therefore, the first proposition that can be made concerns the number and kind of decrees. Large numbers of decrees and/or highly important issues settled with decrees geared to circumvent parliament increase the costs of issuing decrees given the parliament's capacity to respond with its powers over executive personnel.

To illustrate the logic of this proposition, in issuing his first decrees, Yeltsin appointed himself as Prime Minister and Yegor Gaidar as deputy Prime Minister. On November 15, 1991, Yeltsin proceeded to issue a package of ten decrees to launch Russia's variant of shock therapy that entailed the rapid transformation of the Russian economy. The decrees covered a wide range of issues. They included removing control of Russia's economy from the jurisdiction of the Soviet government to Russia. Yeltsin's decrees also mandated the liberalization of foreign trade, authorization of foreign convertible currencies, and establishment of a minimum wage.<sup>68</sup> The President, thus instead of going to the Supreme Soviet, had issued decrees to enact law on many important economic reform initiatives.

In addition to setting policy, the Russian President used decrees as a means to increase his bargaining power with parliament. Specifically, decrees added to the president's ability to extract concessions from parliament. According to Remington and others,<sup>69</sup> with the threat of a decree, the president could reinforce the urgency of his proposal, substitute a decree for stalled legislation, or pressure parliament to pass the President's preferred legislation. Therefore, the deputies in calculating their response would have to consider the tradeoffs premised on whether the President followed through on his threats and issued a decree. Using decrees as bargaining

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<sup>68</sup> See Scott D. Parrish "Presidential Decree Authority in Russia," in John M. Carey and Matthew Shugart eds. *Executive Decree Authority* (Cambridge: Cambridge University Press, 1997) pp.62-103.

<sup>69</sup>Thomas Remington, "Law Making and the Separation of Powers in Russia," unpublished paper, January 28, 2001; Scott Parrish, "Presidential Decree Authority in Russia," in John M. Carey and Matthew Shugart eds. *Executive Decree Authority* (Cambridge: Cambridge University Press, 1997) pp.62-103.

leverage would decrease the costs of their use and carry with them higher certainty of extracting concessions from parliament. Parliament had incentives to strike a better bargain, but not to invoke its powers of survival over the executive.

An example of this logic can be illustrated by the events that ensued after the mass privatization was completed. The President used threats of decree to force the pace of post-voucher legislation and to attain as close as possible his preferred policy outcome.

Following Remington's account,

Chubais demanded that the Duma pass a law on the privatization of state and municipal enterprises from July 1, 1994; if the deputies failed "to show a sufficient level of even an elementary understanding of their role in the state machine of power," he threatened that the president would launch the next phase of privatization by decree. the president also threatened to issue decrees on tax reform and regulation of the securities markets and of stock companies in the summer of 1994 in order to spur the Duma to pass his proposed package of legislation on these issues. Intensive negotiations between Chubais and the Duma produced a bill on privatization which was acceptable to Chubais and to the privatization committee and several factions in the Duma. It failed on the floor, however, by 13 votes. However, according to the head of the Duma's privatization committee, the failure of the legislation was not absolute: a number of the provisions that had been agreed on in the defeated legislation were incorporated into the president's decree.<sup>70</sup>

The President's ability to use decrees to make policy decisions also was limited by constitutional and political considerations. Constitutional limitations on the president's decree power refer to areas of policy that can only be decided by legislation. For instance, the 1991 Privatization Act required subsequent state programs to be approved by statute in the Supreme Soviet. In addition, to abide by his democratic credentials the president would need to follow the rules of the game (parliamentary approval of state programs as stipulated in the 1991 law). In other words, Yeltsin abided by the democratic principle implied in the logic of contingent consent.<sup>71</sup>

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<sup>70</sup>Thomas Remington, "Law Making and the Separation of Powers in Russia," unpublished paper, January 28, 2001 p.1.

<sup>71</sup> In other words, institutional arrangements would be taken as fixed or given in the short run; the cost of overturning them by force -- as Yeltsin did in 1993 -- would be greater than the cost of complying with them. This is the strategic logic of contingent consent proposed by transition theorists as a way of

As previously noted, the President used decrees for wide-ranging purposes, including as a means to set privatization policy. However, several pieces of evidence support the contention that the president regularly sought cooperative outcomes with the legislature. Examples included the 1991 Privatization Act, the decrees issued by both institutions to lay the preparatory groundwork, the Basic Provisions for 1992, and the State Program for 1992. In fall 1992, Chubais did attempt to have the legislature consider important issues such as the protection of citizen's rights in the process of mass privatization. In addition, Chubais submitted the 1993 program to the Supreme Soviet in December 1992, and he repeated the attempt in 1994. The pattern reveals an executive seeking cooperation first, but using decree if all else fails.

However, political considerations also constrained the president and could explain the above pattern. Parliamentary responses were not dependent just on the issue at hand but also on the past interactions between the executive and legislative branches regarding economic reform. The executive needed to calculate whether to take action on the strength of a decree especially if the action could be risky or costly. Under conditions of perceived presidential unilateralism, the chances were high that the parliament with its strength in non-legislative powers, could respond in kind with its own threats. Parliamentary threats could include withdrawal of the president's special powers up to attempts to remove the president from office. Thus, the president's ability to use decrees to circumvent the parliament had to be weighed against parliament's ability to reassert its control over policy and the composition of government, and the nature of the regime itself.

In sum, parliament's censure and impeachment alternatives set the benchmarks for the costs of issuance of decrees. Thereby, we expect that credible threats to executive personnel to decrease the likelihood of the subsequent use of decrees within the normal legislative give and

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explaining why opposing political forces might agree to observe a power-sharing constitution.

take politics of policy making. The president, if guided by incentives tied to his own tenure, would be more likely to seek negotiated compromises with parliament. Given institutional constraints on his freedom of action, the President strategically would accept second best alternatives rather than his ideal point

## **B. The Parliament: Strong Non-Legislative Powers and Reactive Legislative Powers**

Returning to the agenda-setting framework, the President's powers permitted the Privatization Minister to present his neoliberal plan as the best solution to transform the country's property rights as early as November 1991. The section below begins with an evaluation of the parliament's non-legislative powers. Parliamentary actors are depicted as power-maximizers. However, the Chairman and Supreme Soviet were placed in the role of follower rather than leader by preceding events (August 1991-December 1991). As set into motion by the delegation of the president's special powers, under the existing rules of game the Chairman of the Supreme Soviet (as agent of the Supreme Soviet and Congress of People's Deputies) was forced to respond to presidential initiatives. In January 1992, it appeared that the executive would hold this advantage and the legislature would be unable to get ahead of the presidential lead in policy matters.

Per the powers distribution theory, however, parliament is predicted to have strong incentives to draw upon its survival powers under conditions of heightened conflict between the branches. Below, I explore the sequence of events that led up to parliament's use of censure and other extreme measures on the part of the Chairman of the Supreme Soviet. The account begins with the issuance of presidential decrees under cooperative conditions -- the president's use of decrees as a joint project between parliament, and the president. Under these conditions, decrees can be evaluated as low-cost instruments to change the privatization policy status quo. The

second set of conditions illustrate the high cost of decrees issued to circumvent parliament. The president's actions are evaluated as high cost in that they appear to have set into motion conflict between the branches as of January 1992. The third set of conditions reflect the confrontational high-stakes brinkmanship that took place at the Sixth Congress of People's Deputies in April 1992.

### **1. Parliamentary Responses: Presidential Decrees Under Cooperative Relations**

Beginning in November 1992, the president's agenda-setting powers legitimized the reform team's neoliberal approach to Russia's transition, captured the economic agenda and defined the terms of the debate. The President accomplished these tasks through cabinet appointments, the informal mobilization of the public through speeches, and the use of decrees to take the preparatory steps for privatization. Except for the appointment of the reform team, most if not all of these steps could be considered low-cost strategies. Arguably, these steps probably most advanced Privatization Minister Chubais's preferred policy outcome.

### **2. Parliamentary Responses: Presidential Decrees Under Conflictual Presidential Relations**

In late December 1991, the President issued decrees to set policy. Specifically he used his decree power to implement Yegor Gaidar's price, currency, and trade liberalization measures. Unlike the legislative decrees used to get privatization underway, the President did not go to parliament for further approval on other economic reforms. Per the wording of the decree, Yeltsin drew upon the Fifth Congress of People's Deputies earlier mandate to conduct economic reform.<sup>72</sup> Thereafter, however, parliament interpreted these actions as presidential unilateralism.

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<sup>72</sup>The decree specifically states "On Measures to Free Up Prices," in Accordance with the resolution of the Congress of Russian People's Deputies of the RSFSR "On the Social and Economic Situation in the RSFSR," dated November 1, 1991. For the full text of the decree, see *Rossiiskaya gazeta*, December 25, 1991, p.1.

Once the implications of Russia's variant of shock therapy became felt in January 1992, the Chairman of the Supreme Soviet began the drive to constrain presidential power with threats regarding the tenure of the cabinet.

From January to the April Congress of People's Deputies, the President and Yegor Gaidar generally ignored these threats. Gaidar to some extent retreated from the sharp measures to stabilize the economy, and he called for patience, expecting that the economy would shortly recover. In addition, the Supreme Soviet anticipated the submission of Chubais's privatization program that promised to be equally radical. Equally important, the deputies had the initial Privatization Act of 1991 as referent regarding their distributive and ownership preferences.

### **3. Parliamentary Responses: Presidential Decrees Under Conditions of Confrontation**

Parliament had several options to express disagreement with the President. The President was required to submit reports on the progress of economic reform when the Congress of People's Deputies convened; the parliament could then vote its agreement or dissent with the reform strategy and its anticipated consequences. However, the Parliament could not prevent the use of presidential decrees with the force of law. Given the events leading up the Sixth Congress of People's Deputies, the Congress went beyond threats and escalated the game to high stakes brinkmanship.

In November 1991, the Fifth Congress of People's Deputies tolerated the President's violation of the constitution when he temporarily assumed the role of prime minister. By March 1992, the Sixth Congress of People's Deputies attempted to table an unsuccessful vote-of-no-confidence. The censure motion reasonably could be interpreted as a signal of

Congress's displeasure with the reforms, but also with the growth of presidential power. Concurrently, the Congress rejected the President's Report on the Progress of Economic Reforms.

During the Sixth Congress of People's Deputies, the CPD's use of its non-legislative powers related to origin and survival can be interpreted as an attempt to accomplish three objectives. First, the CPD sought to force the President to submit to parliament a candidate for prime minister. Although in the appointment process Yeltsin would nominate the candidate, the Supreme Soviet held the power of approval. Therefore, the Supreme Soviet viewed the nomination as a means to regain some control over reform policy.

Second, the Supreme Soviet used threats of censure as a means to increase its bargaining leverage with the president over the composition of the government. In addition to forcing the president to relinquish control over the post of prime minister, the Supreme Soviet Chairman and conservative deputies used its approval over the president's reform program as leverage to bargain for the replacement of a number of cabinet ministers.

Third, less visible but implicit in their threats was the Congress's potential willingness to use its impeachment powers. Under the amended Russian constitution, the president had a five-year term beginning in June 1991 and was not up for election until June 1996. The fixed term presidency should have set a baseline for stability in governance. In constitutions that set a high bar for impeachment, the president cannot easily be removed from office. The legislative branch is constrained from the use of impeachment -- especially over a disagreement with the president over mere policy disputes. Therefore, on policy matters the president should be more independent of the legislature. Therefore, the executive should have less risk in taking radical



policy stances and a longer time frame in between elections to implement reforms. But the survival powers in Russia's constitution tended to discount the fixed term of the president. The president could be impeached for breaking the law, a provision that permitted a wide range of interpretation.

#### **4. Summary: The Strategic Premises of Russian Law Making**

The asymmetrical pattern of powers concentration created an institutional incentive structure; this pattern assigned costs and benefits to the president's choices in his exercise of the legislative powers and cabinet appointment powers. True to predictions, formalized presidential powers in the interim constitution gave the president high bargaining power but varying degrees of uncertainty in the use of specific powers. To some extent, because the president was the agenda setter and could reinforce his policy preferences by decree, privatization policy change was not in doubt.

Presidential decrees could be used unilaterally to change the policy status quo with the force of law only in concert with parliamentary support or if not in single instances. However, if used to circumvent parliament repeatedly, law making by decree entailed high costs and carried some certainty that parliament might respond with high stakes brinkmanship. As a nested game, the expected payoffs changed in repeated play. For the president, the outer boundaries for executive action were set by the legislature's willingness to assert its control over executive personnel and the tenure of the president himself.

#### **C. Institutional Incentives and Strategic Choice: The 1992 State Privatization Act**

Having stipulated these conditions, the specific patterns of legislative and non-legislative powers now might be used to predict actor's strategies. Within the normal bounds of legislative activity, the president's referents were changes of policy that could take place through the

amendment process. For the legislature, within the normal bounds of legislative activity, their range of actions were limited by the anticipation of presidential decrees, executive-authored legislative initiatives, and vetoes.

Even prior to the events of the Sixth Congress, the law-making game held specific constraints regarding Chubais's proposed framework legislation. First, Yeltsin had multiple incentives that led him to submit the framework legislation to the Supreme Soviet for approval. As noted, the 1991 Privatization Act mandated that subsequent framework legislation required the Supreme Soviet's approval. In terms of cost-benefit framework, seeking a settlement of policy issues with parliament carried for the president the least risk. Further, the president already had suffered costs of legislating price liberalization by decree. As previously noted, the perceived policy failures regarding economic liberalization policies had made the president vulnerable to calls for relinquishing his recently bestowed role of prime minister and legislative powers.

Chubais put the privatization act onto the parliamentary agenda by submitting the legislation in March 1992. Per the agreement with parliament regarding economic reforms, the proposed privatization law received top priority over other bills. In addition, to attain approval on of the first reading, Chubais exploited the advantage of having set the terms of the debate. As Chubais has noted, he placed before the deputies the most radical set of policy alternatives as the starting point for negotiations of outstanding issues. Furthermore, Chubais was able to keep most of his policy priorities intact on the first readings.

However, approval of the first reading came on the eve of the opening session of the Sixth Congress of People's Deputies. At this juncture, Khasbulatov used his own agenda-setting prerogatives to alter the terms of the game. He insisted on delaying the vote instead of bringing the proposed privatization program to the Congress of People's Deputies. The privatization law

apparently never was put on the CPD agenda for a vote. However, the delaying tactic appears to have favored parliament when it came to the final approval on the second reading. In this respect, the Chairman used his authority to decide which institutional arenas privatization policy would be decided in as a means to manipulate the final outcome.

The second reading on the proposed privatization laws began at the end of May. Following the Congress, the President had capitulated by changing the members of the reform team cabinet. At the same time, Yeltsin appointed Yegor Gaidar acting prime minister so to delay the most important cabinet change. Chubais also became Deputy Prime Minister, increasing his status in the government. Despite the events of the Sixth Congress, Chubais was optimistic that the program would be approved without being dismantled. In estimating the degree of change possible with the law, however, he had to take into account the formal amendment procedure of the Supreme Soviet.

At the end of May 1992, the parliament's starting point was the radical version of the program. Chubais had already made some concessions by reintroducing the voucher proposal. As noted by Boycko, Shliefer and Vishny (1995), the voucher proposal was intended to mobilize public support for the bill prior to its second reading. Although the Sixth Congress made it abundantly clear that the legislative bodies sought a greater say in economic reform, the question remained open as to whether its previous moves against the president would constrain Chubais in the pursuit of his preferred policies. Ultimately, the deputies proceeded with uncertainty since recent events highly discouraged a presidential decree, although the high stakes involved in legislating privatization did not make that option impossible. The costs of issuing a decree, however, would have been quite high. In addition, by having Chubais submit the legislation, the president had already signaled to the deputies that he would tolerate a second-best outcome.

Having already had made a number of alterations to the proposed legislation Chubais was in a weaker position than if he the decree option had been available. According to Chubais, his strategy to achieve his preferred policy was linked to extracting cooperation from the Chairman. That is, Chubais believed that Khasbulatov would report the bill out to floor using his agenda powers to force a take-it or leave it vote. For reasons left unexplained by Chubais but probably evident from the events that followed, Khasbulatov reneged on the agreement. Instead of using his gate-keeping powers to preclude amendments, the Chairman allowed for the extraordinary procedure of permitting conservative deputies to pose alternative privatization proposals. The alternative privatization proposals would be debated and voted on simultaneously with the government's program.

Placed on the defensive, Chubais had to settle for a negotiated outcome. During this process, the deputies were able to incorporate their preferences in the final version of the bill. The negotiated outcome can be directly linked to Option Two that led to insider privatization and ostensibly the related problems with inequity and bureaucratic capitalism. Although, Yeltsin offered to veto the act passed by the Supreme Soviet, Chubais declined. Instead he chose to implement the program since there were areas of generality in the bill that he could fill in with decrees later

#### **D. Conclusion and Summary Findings**

Russia began its experiment with democracy and liberal institutions with an amended Soviet-era constitution. Institutional choice was path-dependent. The First Russian Republic was built upon a presidency and two-tiered legislature chosen during the late during Gorbachev era. While breaking with traditional values linked to unified, autocratic power, the emerging system of separation of powers gave rise to a powerful presidency and an equally powerful parliament. In addition, statebuilding continued to sustain the principle of federalism.

To analyze Russia's capacity for policy innovation, comparative constitutional analysis was used to assess the overall distribution of power in Russia's 1978 amended constitution. Of a possible 20 indicating the average highest possible concentration of power among the postcommunist cases and 2 indicating the most decentralized configuration of institutions, Russia's index score was 10. The score reflects a cluster of institutional characteristics within a moderately decentralized framework.

Specifically, the most important features included; (1) the functional distribution of powers (among the executive, legislative, and judiciary branches); (2) the powerful presidency, as agenda setter and policy decider in selective instances; (3) the strong legislature, as policy blocker with its control over the survival of the executive and its reactive powers; and (4) the federal structure of the state. This configuration of institutions predicted policy change was possible; the degree and kind depended upon the ways these institutions structured decision-making and strategies available to Russia's executive.

In Section I, formal constitutional analysis revealed that Russia's 1978 interim constitution (the origin and survival powers) distributed the functional roles and powers to multiple actors. But the Russian constitution also retained the Soviet era hierarchical organization structure; the hierarchy of authority reduced the number of institutional policy actors to two. The executive and legislative branches constituted a bipolar distribution of power. Given the president's concentrated legislative powers, a number of examples of legislation can be pointed to that appear to support the executive dominance thesis. But as noted above, although the president issued numerous decrees, few can be explained by the president's instrumental and unconstrained use of the powers nor can the instances of submitting statutes to parliament. Therefore, sections two and three looked to multicameralism and the distributive patterns of legislative and non-legislative powers for further explanatory leverage.

Section II dealt with the effects of federalism, bicameralism, and Russia's Constitutional Court. The qualitative findings revealed that bicameralism was not a significant influence. Economic policy was relegated to the domain of the lower house. The upper chamber, the Council of Nationalities often rubber-stamped lower house decisions; at other times the two houses met in joint session. Until 1993, the Constitutional Court remained peripheral to most of the struggles between the executive and legislative branches over property. However, during the constitutional crisis, parliament called upon the court to intervene, but it declined to reverse presidential decrees governing privatization.

Federalism influenced privatization policy decisions since it created access to subnational governments and officials. The question was whether the federal structure of the state constrained or was constrained by executive power. The findings indicate that the answer depended on the time frame under discussion. During the formulation and legislation of mass privatization, the president exercised his prerogatives to constrain the regions. The president put into place his representatives to control local governments. In parliament, the number of representatives strictly dedicated to promoting regional interests in the Congress and Supreme Soviet also was small and inconsequential.

However, the privatization framework laws gave the regional governments and soviets approval rights in deciding the privatization strategies of specific enterprises. The regions thus had the greatest opportunity to obstruct, delay, and circumvent federal laws during the implementation of mass privatization. Regional variation along pro-reform and anti-reform lines determined in part, whether subnational governments would participate willingly in mass privatization auctions. However, executive power also played a role. The president and GKI had a repertoire of instruments to coerce recalcitrant and conservative parts of the country into line. In addition to the president's regional representatives, Yeltsin also had the right to overturn

contradictory laws promulgated by regional governments. For his part, Chubais instituted the wide-ranging authority of property committees in every part of the country.

Thus, as outlined in Chapter 2, the full participation of 86 of 89 federal sub-units was secured by the end of the privatization program. Federal issues, therefore, could have slowed the privatization timetable. However, the organizational strength of GKI appears to preempted the ability of the regions to become a significant factor as regards the pace of divestment. During the implementation of privatization, however, the regions could be considered an important reinforcing factor of bureaucratic capitalism and state capture. The weakness of the Russian state to enforce property rights and the strength of conservative bureaucrats appear to have reinforced the problems related to insider privatization and bureaucratic capitalism.

Section III began with the premise that the president and parliament appeared as the central actors in privatization policy making. Key to their relations was the asymmetry in the distribution in the legislative and non-legislative constitutional powers. The law delegating special powers to the president had concentrated crucial legislative powers in the executive branch. Constitutional amendments also had concentrated non-legislative powers related to the survival of the executive in the legislative branch. The institutional configuration of Russia's powerful president and apparently strong parliament predicted three possible outcomes -- policy change through presidential prerogative, negotiated compromises, or some combination of the two strategies.

In Section IV, these propositions were examined by using an informal constrained, rational-actor approach. The asymmetric pattern of legislative and non-legislative powers was used to identify the institutional incentives guiding interbranch relations. In sequential rounds of decision making, the president's chances for controlling the policy outcome were predicted by (1) his decree, agenda-setting, and veto power, and (2) the parliament's means to constrain the

president, given its reactive legislative and non-legislative powers. Cost-benefit analysis of the executive's policy options proved useful in explaining the president's mixed strategy of decree and statute. The costs and benefits attached to legislating by decree or statutes were linked to the support or opposition, which the parliament signaled to the president. The findings can be summarized by the following four points.

First, the division of proactive and reactive powers appeared to define the relations between the executive and legislative branches as a leader-follower set of interactions. In fall 1991, agenda-setting initiatives appeared to be low-cost and highly effective in shaping the course of property reform. The president's agenda setting powers -- cabinet appointment, decrees, and exclusive proposal of economic reforms -- were crucial to capturing the terms of debate and ensuring in part the achievement his neoliberal policy agenda. Chubais's appointment as privatization minister and his effectiveness as a policy entrepreneur, permitted the executive to take the offensive. Chubais's activism, the early decrees, and the president's commitment to radical property reform defined the "appropriate" policy response to Russia's future as a market economy based on private property.

Second, in the next sequence of action and reaction as predicted, parliament sought to regain some control and to set limits on the exercise of presidential power. Following the president's extensive use of decrees to launch shock therapy, the parliamentary leadership began with calls for the dismissal of the cabinet. The calls for cabinet resignation escalated at the Sixth Congress to censure of the president (in his role as prime minister). The president already had acceded to submitting the framework laws to parliament as required by law. However, another



scenario also was possible. If the president had insisted upon the unilateral use of decree power to legislate privatization, the parliamentary leadership (as they had signaled) may have tried to take over control of the executive.

Third, with privatization now on the parliamentary agenda, the Supreme Soviet leadership had challenged, but not disrupted the leader-follower policy making dynamics. During the second reading of the state program in June 1992, the parliamentary leadership appeared to have constrained executive power by using its non-legislative powers. Without having a presidential decree in the wings as leverage, the reformers had little option but to opt for a negotiated outcome.

However, for parliament, the gains they had extracted at the Sixth Congress did not mean that they could move the proposed legislation to a reversionary point (e.g., the watered down version of privatization -- the lease-buyout provisions offered in the Privatization Act of 1991). The Supreme Soviet's reactive powers conferred significant control over the legislative process. Thus, it was unlikely that government's initial offer of 25 percent preferential shares would hold. But it was also unlikely that conservative legislators could achieve more than they received -- the 51 percent second option. But why was this the most likely outcome?

Following agenda-setter theory, the equation that the executive proposes and parliament disposes no longer holds. In the beginning, as the legislative game was structured under the existing constitutional rules, parliament had to react to the executive's most radical, liberal position (somewhat adjusted to coopt reform-minded but conservative deputies in the Supreme Soviet). For parliamentary deputies to reject entirely the reformer's proposal could be framed by the executive as a repudiation of the transition. Although Chubais did not have a decree as a fall-back position, he managed to sustain the leader-follower dynamic by changing the game

from a bilateral one between executive and parliament to a trilateral one incorporating the Russian public. The public was used as ballast to sustain government's role in defining the terms of policy change; Chubais insisted that distributive outcomes had to incorporate shares for free distribution to Russian citizens. The reformers could not sustain their position that limited preferential shares to 25 percent without a presidential decree. However, the conservatives also could not sustain their extreme positions of around 70 to 90 percent by repudiating the public's opportunity to participate in privatization. In end the conservatives extracted 51 percent preferential shares up to a possible 65 percent. The reformers retained individual versus collective property rights and auction sales as predominant method. They also had the opportunity to move the policy back toward their preferences by extracting a presidential decree that made vouchers tradable.

Fourth, following the June 1992 legislation of the State Privatization Program, the number of decrees overall increased as well as decrees intended to circumvent a hostile parliamentary majority. Given the cost-benefit structure outlined above, these actions on the part of the president appear contradictory to expectation. Previously, even when the president and parliament profoundly disagreed, the tendency was work out their differences through compromises.

However, by fall 1992 the costs of high-stakes brinkmanship on the part of both branches became apparent. Parliament's repeated use of threats -- regarding the tenure of the cabinet, the acting prime minister, and the president -- initiated the process of unraveling the constitutional rules of the game. In terms of privatization legislation, the executive responded with the issuance

of decrees, but at first decrees were used selectively. As the parliamentary opposition became a majority, he still attempted to legislate the state programs for 1993 and 1994. Once the rules of the game apparently no longer held, the president increasingly without restraint used decrees to prevent the unraveling of the program.

## **Chapter Four**

### **The Russian Federation, Privatization, and The Unity of Purpose**

This chapter explores Russian property reform using partisan theories of policy change. In the power distribution thesis, the executive's capacity to achieve his policy agenda was shaped by the constitutional enumeration of legislative and non-legislative powers. Russia's separation of power type of presidentialism created a dilemma for the executive. Presidential strategy could rely on constitutional prerogatives or submit legislation to parliament. Second-best policy outcomes -- negotiated compromises -- were likely under existing institutional constraints.

In partisan theories, the executive's role is to create coalitions for decision out of the diverse preferences and interests among partisan actors in the assembly. For Russian reformers, the challenge was to construct legislative majorities out of the disparate factions and blocs in parliament. Undoubtedly, stakeholders, partisan actors, and communists, played an important role in limiting the strategies and policy alternatives available to Chubais and the other reformers. However, the mere presence of stakeholders (their statements, and protestations) is insufficient to explain legislative outcomes. To grasp the causal influence of the opposition, as well as other partisan actors, the argument below highlights the parliamentary setting that created the opportunities and obstacles to action.

As developed by Herbert Kitschelt (1998) and others, theories of inter-party cooperation are useful for sorting out these issues. As outlined in Chapter One, the certainty of policy change increases when partisan conditions favor the formation of stable, legislative coalitions. Majoritarian electoral rules are expected to increase coalition potential and the manufacture of legislative majorities. Alternatively, consensual electoral rules increase the demand for

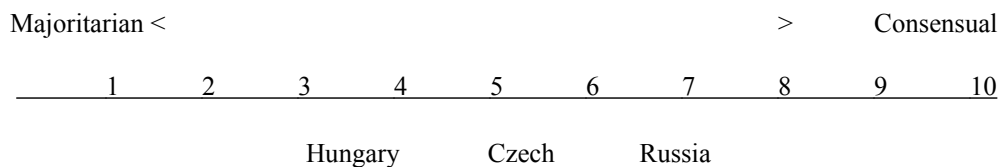
intra-party cooperation. Moderately consensual electoral rules also increase the supply for legislative coalitions. The less consensual or disproportional the formula for translating votes into seats, coalition potential decreases. As the coalition supply decreases, the bargaining necessary to bring together a cross-party legislative coalition increases the policy costs. If privatization is being legislated, the chances increase for the use of side-payments in the form of preferential shares for insiders.

To assess the validity of this hypothesis (H:5), measures of party system characteristics are used to operationalize the purpose variable. The index is comprised of the effective number of parties as an indicator of fragmentation, polarization scores (premised on ideological distance between parties, and intra-party instability (based on whether it was persistent, periodic, or a one-time phenomena). The index score reflects the demand for inter-party collaboration, and the possible supply for (1) manufacturing majorities or (2) constructing majorities through stable or other types of cross-party coalitions. Table 4.1 below summarizes the comparative the findings for Russia, Hungary and Czechoslovakia.

**Table 4.1 Comparative Purpose Index Scores**

	Russian Federation		Hungary		Czechoslovakia	
Fragmentation	Moderate	2	Low	2	Moderate	3
Polarization	Moderate	3	Moderate	1	Moderate	1
Intra-part Instability	To High Persistent	1.5	Temporary	1	Periodic	.5
<b>Score</b>		<b>6.5</b>		<b>4</b>		<b>4.5</b>

Russia's index score of 6.5 reflects partisan conditions during one discrete time-frame between November 1991 and June 1992. Russia's position on the purpose continuum predicts a high demand for inter-party collaboration. Without a standing legislative majority in parliament, the reformers had to form a coalition of two or more parties that possessed a majority of the parliamentary votes. Russia's party-system characteristics predicted that the reformer's best chance for creating legislative majorities were case-by-case temporary coalitions. However, increased polarization and instability also showed the potential for building temporary coalitions accordingly was decreased.



**Figure 4.1: Unity of Purpose Continuum**

The rest of the chapter develops the partisan argument in five sections. Section I. provides background information regarding Russia's electoral system and the 1990 parliamentary election. The issues of fragmentation, instability, and fragmentation then are analyzed. From this analysis, several propositions are suggested regarding Russia's potential for inter-party cooperation and legislative coalition formation. In the remaining four sections, I conduct an intra-country comparative exercise. During the legislation of mass privatization, partisan conditions varied by discrete time frames. The variation in the patterns of party-system dynamics appear to explain executive-legislative relations, levels of support within parliament for radical privatization, and coalition potential.

## **I. Russia's Electoral Rules and Party System Characteristics**

Single member district plurality rules governed Russia's 1990 elections of 1,068 deputies to the Congress of People's Deputies. The elections were a contest between popular fronts and movements differentiated by their positions on the communist past. Democratic Russia, a coalition of democratic reformers, ran against a bloc of communists and nationalists at the national and local level. Because Russia's SMDP electoral rules proliferated factions, the executive did not have a legislative majority in parliament. Therefore, the demand for inter-party cooperation always was high.

### **A. Party System Fragmentation**

Party system fragmentation refers to the number of relevant parties. In Kitschelt's (1998) coalition theory, the absence of fragmentation serves as an indicator of strong programmatic and cohesive parties. Consequently, stable coalitions tend to form. Fragmentation alternatively "makes legislative coalitions volatile."<sup>1</sup> According to William Riker (1962), fragmentation as well as intra-party instability lends to uncertainty in bargaining conditions in parliament. In the search for coalition partners, uncertainty refers to imperfect information or the inability to predict the strategic behavior of parties.<sup>2</sup> Sartori (1976) includes fragmentation as an indicator of pluralized, polarized, or moderate party system development.<sup>3</sup>

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<sup>1</sup> Herbert Kitschelt, Zdenka Mansfeldova, Radoslaw Markowski, and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Interparty Cooperation*, (Cambridge: Cambridge University Press, 1999) p. 346.

<sup>2</sup> See Lawrence C. Dodd, *Coalitions in Parliamentary Government* (Princeton, Princeton University Press, 1976), p. 40; William H. Riker, *The Theory of Coalitions* (New Haven: Yale University Press, 1962) pp. 77-89.

<sup>3</sup> See Giovanni Sartori, "European Political Parties: the Case of Polarized Pluralism," in Joseph LaPalombara and Myron Weiner eds. *Political Parties and Political Development* (Princeton: Princeton University Press, 1966) pp. 137-166.

Thus, fragmentation affects the probability of coalition formation and the type of coalitions that can be formed. As fragmentation increases (more than 6 parties) the probability for stable coalitions decrease. With moderate fragmentation (4-6) parties, the likelihood of case-by-case temporary coalitions increases. At lower levels of fragmentation (2 to 4 parties), stable legislative coalitions are likely to form.

In Russia, fragmentation varied during three time frames. At the first four Congresses of People's Deputies, deputies were aligned in two large blocs with moderate deputies in the center comprising the swing vote. However, the two blocs contained numerous groups and factions.<sup>4</sup> Various researchers have reported as high as twenty-four to thirty-two groups at the First Congress of People's Deputies in May 1990.<sup>5</sup> Despite the large number of groups, voting patterns in the first congresses assumed a stable, bipolar pattern. The early congresses dealt with fundamental issues relating to constitutional amendments and economic reform; thus their votes tended to represent a referendum on the Soviet past. Transition issues permitted the two blocs to coalesce on issues, discounting to some extent the underlying fragmentation.

At the Fifth Congress in October 1991,<sup>6</sup> the two blocs began to splinter into their constituent parts. Fragmentation was at its highest between April 1991 through November 1991.<sup>7</sup>

To promote more cohesive parliamentary groups, the leadership instituted the faction system to

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<sup>4</sup> According to Hough, these groups were artifacts of the Soviet System as well as new political groupings. Jerry F. Hough, "Legislative Structure and Party Development," in Jeffrey W. Hahn ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk, NY: M.E. Sharpe, 1995) p. 87.

<sup>5</sup> David Lane and Cameron Ross, "From Soviet Government to Presidential Rule in *Russia in Transition Politics, Privatization, and Inequality*, ed. David Lane (London and New York: Longman, 1995. pp.3-20.

<sup>6</sup> In August 1991, a group of conservative politburo members and other notables attempted to end Gorbachev's perestroika by imprisoning the General Secretary. However, the coup plotters botched the attempt. Subsequently, Yelstin rose to power while Gorbachev's influence declined.

<sup>7</sup> See Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001); Thomas F. Remington "Ménage à Trois: The End of Soviet Parliamentism," in Jeffrey W. Hahn, ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk, N.Y. And London, England: M.E. Sharpe Inc., 1996); Jeffrey Gleisner, Leonti Byzov, Nikolai Birykov, and Viktor Sergeyev, "Parliamentary Control in Russia" *Journal of Contemporary History* vol. 31 no. 3 pp. 427-461.



encourage deputies groups to organize into formal factions. The “faction system” brought together groups sharing a common political program.”<sup>8</sup> To have rights in the parliament and to receive official recognition, a faction had to a base membership of 50 deputies. By fall 1991, the groups had coalesced into approximately 12 to 15 factions.<sup>9</sup>

To analyze the fragmentation in parliament, I calculated the effective number of parties (EFN) beginning with the Fifth Congress in November 1991. In Russia, estimating the EFN was complicated by data problems resulting from overlapping membership.<sup>10</sup> Therefore, the following numbers reflect approximate EFNs of parliamentary fragmentation. Using factions as the unit of analysis, the EFN for the Fifth Congress in November 1991 was 10.8, the Sixth Congress in April 1992, 9.9, and the Seventh Congress in December 1992, 12.5. As such, Russia’s EFN of 9 to 12 factions indicates hyper-pluralism.

In October 1991, the congressional leadership further revised the Standing Orders of Parliament. The Congress’s rules now encouraged factions to join together in blocs.<sup>11</sup> Blocs were coalitions of three to four factions; defections were discouraged since a deputy could only belong to one faction. The new standing orders also encouraged faction leaders to attain some

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<sup>8</sup> Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001) p.

<sup>9</sup> For a discussion of the Russian parliamentary leadership attempts to stem fragmentation in parliament through parliamentary standing orders see, Jerry F. Hough, “Legislative Structure and Party Development,” in Jeffrey W. Hahn ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk, NY:M.E. Sharpe, 1995) pp. 83-105; Thomas Remington, “Ménage à Trois:The End of Soviet Parliamentism,” in Jeffrey W. Hahn, ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk, N.Y. And London, England: M.E. Sharpe Inc., 1996) pp.106- 140.

<sup>10</sup>The data I used for the Fifth Congress came from Vladimir Pribylovskii, *Politicheskie Fraktsii I Deputatskie Gruppy Rossiskogo Parlamenta* (Moskva: Panorma, March 1993) p. 2 and pp. 31-87 as cited in David Lane and Cameron Ross, “From Soviet Government to Presidential Rule” in David Lane ed. *Russia in Transition Politics, Privatization, and Inequality* (London and New York: Longman, 1995) p.7. The data for the Sixth and Seventh congresses came from Alexander Sobyenin, “Political Cleavages Among Russian Deputies” in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994). p. 215.

<sup>11</sup> Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001) p. 143.

leverage over their members on legislative votes.<sup>12</sup> Specifically, floor procedures gave blocs precedence over factions.<sup>13</sup> By the Sixth Congress of People's Deputies, four voting blocs had formed that were comprised of 2 to 5 factions. If I use voting blocs as the unit of analysis to estimate fragmentation, the EFN is reduced to 4.8 by March 1992.

## **B. Factional Instability**

Factional instability is defined by significant changes of party membership and identity. In transition countries, the process of party system formation entailed the transformation of parties into fractions then back into parties. As expected, in Russia fractional instability began with the breakup of the popular front Democratic Russia and the Russian Communist Party. The process began in earnest following the August 1991 coup attempt. Deputy defections from faction to faction were a common phenomenon. Periodically new factions formed. Older factions splintered, merged, and reformed, and some disappeared.<sup>14</sup>

As shown in Table 4.1, changes in membership also were frequent and consequential. In October 1991, the Communists of Russia faction reputedly had the largest membership with 357 deputies. By 1992, the Communists of Russia had lost most of its membership with only 59 deputies remaining. The Agrarian Union was the next largest with 111. The Agrarians became the largest faction when their membership increased to 149 in summer 1992.

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<sup>12</sup> Thomas F. Remington, *The Russian Parliament: Institutional Evolution in a Transitional Regime, 1989-1999* (New Haven CT: Yale University Press, 2001) p. 143.

<sup>13</sup> Ibid, p.143

<sup>14</sup> For a discussion of changes in the emergence and disappearance of factions, see Richard Sakwa, *Russian Politics and Society* (London and New York:Rutledge, 1993); Jeffrey Gleisner, Leonti Byzov, Nikolai Birykov, and Viktor Sergeyev, "Parliamentary Control in Russia" *Journal of Contemporary History* vol. 31 no. 3 (1994) pp. 427-461; Jerry F. Hough, "Legislative Structure and Party Development," in Jeffrey W. Hahn ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk, NY:M.E. Sharpe, 1995) pp. 83-105.

**Table 4.2 Factional Stability**

	October 1991	April 1992	May 1992	December 1992	Feb 1993
<b>Factional Stability</b>					
Agrarian Union	111	109	149	130	129
Communists of Russia	357	63	59	68	67
Fatherland (Otchizna)	70	60	54	51	51
Russia	74	58	54	55	55
Rodina (Motherland)				55	52
Democratic Russia	69	67	73	50	49
Free Russia (Communists for Democracy)	96	68	66	54	55
Left Center	65	67	68	59	62
Radical Democrats	55	46	47	51	40
Consensus for the Sake of Progress				53	53
Industrial Union (Soiuz Promyshlennikov)	58	72	73	51	52
Change New Politics (Smena)	51	52	44	54	53
Workers Union		46	46	50	
Deputies Outside any Factions		269	269	208	208
Sovereignty and Equality	50	63	73	51	49
Non-Party Deputies	55	46	43	0	0
	1111	1086	1118	1040	975

**Source:** David Lane and Cameron Ross, "From Soviet Government to Presidential Rule in David Lane ed. *Russia in Transition Politics, Privatization, and Inequality*, (London and New York: Longman, 1995. p.7.

As of March 1991, Democratic Russia had 200 deputies, but the movement split over the issue of presidential power. By October 1991, the membership was only 69 deputies. In June 1992, Democratic Russia had modest gains with its membership rising to 73. The Radical Democrats<sup>15</sup> began with a membership of 55 in October 1991 that then declined to 49 deputies. The liberals continued to be divided on key issues ranging from presidential power, shock therapy, and privatization.

<sup>15</sup>The Radical Democrats initially were part of Democratic Russia.

## C. Polarization

As Kitschelt (1998) notes, polarization “may mean what the term says, namely that the parties in a system are deeply at odds over how a policy issue should be resolved.”<sup>16</sup> Giovanni Sartori (1976), defines polarization as the distance between the parties on specific issues. Sartori also defines a set of criteria that serve as indicators regarding the polarization of the party system. These criteria include the number of parties (fragmentation), the presence of relevant anti-system parties, the type of competition among parties, and stability among others. In coalition theory, polarization of the party-system is important because it indicates the a-priori willingness of parties to negotiate and to form coalitions.

To analyze the effects of polarization in Russia’s parliament, I first describe the political spectrum. Alexander Sobyenin’s (1994) data then is used to describe the concentration or dispersion in policy distance differentiating the congresses. In addition, Sobyenin’s ideological scores (political ratings developed from selected roll-call votes) are used as indicators to provide some empirical benchmarks for the policy distance between Russian factions and blocs.

### 1. Russia’s Ideological Spectrum

SMDP rules encouraged the entry rather than filtered extremist communist and nationalist groups into the Russian postcommunist political field. The Communists of Russia in 1990 were the main parliamentary party. As “unreconstructed” communists, the party was defined by its efforts to serve as “custodians of the old regime.”<sup>17</sup> The Communists of Russia and the national-patriot movements<sup>18</sup> fought for the restoration of the Soviet Union, hindered the

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<sup>16</sup>Herbert Kitschelt, Zdenka Mansfeldova, Radoslaw Markowski, Gabor Toka. *Post-Communist Party Systems: Competition, Representation and Inter-Party Cooperation* (Cambridge: Cambridge University Press, 1999).

<sup>17</sup>M. Stephen Fish, “The Determinants of Economic Reform in the Post-Communist World,” *East European Politics and Societies* Vol. 12 No. 1 Winter 1998 p. 50.

<sup>18</sup> Rossiya, the nationalist party, formed in Spring 1990 to claim the right to serve as the right-center. However, Rossiya was soon to emerge as the principal initiator of practically all nationalist and rightist factions. Rossiya then became a leading force of Russian Unity, the bloc of the irreconcilable opposition.

adoption of a new constitution and eventually mobilized against economic and political transformation. The most steadfast communists opposed privatization and the institution of private property on ideological grounds. The more moderate communists wanted state-property returned to the work collective.

Polar to the communist-nationalist alliance were the liberal parties. In parliament, the liberal base of support originated with Democratic Russia. Eventually, it split into two factions that formed the Coalition for Reform (Democratic Russia and the Radical Democrats). As advocates of neoliberal strategies to reform, these deputies sought reduced state interference in private enterprise, monetarism, and a reduction of the state's social programs. The liberals strongly endorsed privatization and private property, but were divided on how to proceed. Their social base was comprised of the radically-oriented intelligentsia, anti-communists, and a significant portion of the entrepreneurial circles.

At the center were factions that called themselves "the constructive opposition." The centrists were also divided. The left-center factions advanced social democratic positions, concerns for social-welfare issues, and a gradualist pace of reform. During the legislation of privatization, they advanced the interests of labor that included securing preferential shares of property for their constituencies. The conservative right-center represented businesses, entrepreneurs, and enterprise directors. The conservative-centrists called for a slower pace of privatization and return of a large share of state property to the work collective. Until the summer of 1992, the centrists factions were too fragmented to influence decision making in the

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However, Rossiya was soon to emerge as the principal initiator of practically all nationalist and rightist factions. Rossiya then became a leading force of Russian Unity, the bloc of the irreconcilable opposition. Russian Unity by the Sixth Congress, united the Communists of Russia, the conservative Agrarian Faction and parties representing the national-patriot movement, the revanchist nationalist Fatherland and Rossiya Factions.

Supreme Soviet. The centrists reached their height of its influence when the left and right centrists formed the Civic Alliance. Civic Alliance was a prominent force in parliament until the end of 1993, but faired poorly in the December 1993 elections.

In sum, Russia's political spectrum had anti-system parties in addition to the normal liberal, and centrists parties. As Sartori notes, anti-system parties can affect polarization if they are relevant. Relevance refers to their voting weight in parliament and their ability to affect the direction of the policy competition. The relevance of Russia's communists and nationalists changed from congress to congress. Briefly, the communists (either independently or through the Russian Unity bloc) always had some influence since they controlled between 30 and 40 percent of the seats in the Congress and Supreme Soviet.

Between September 1991 through Russia's independence in January 1992, the communists and other conservatives were in disarray and kept a low profile. By early 1992, they regrouped and formed the "red-brown" coalition called Russian Unity. Although the extremist parties attempted to undermine the transition, their influence on roll-call votes was constrained by the liberal and centrists deputies (representing 565 seats). By spring 1992, the dynamics of party competition changed. The communists pressed their agenda for social protection and a return to the past. By late fall 1992, the communists also had the voting weights in parliament to change the direction of party competition from centripetal to centrifugal.

#### **D. Parliamentary Policy Distance and Party Competition**

Having described Russia's political spectrum and established the role of anti-system parties in Russian politics, I now turn to the patterns of policy distance. According to Sartori (1976), Downs (1957), and others policy distance reflects the likelihood that two or more parties a-priori will form a coalition.<sup>19</sup> To estimate policy distance between Russia's deputy factions

<sup>19</sup> Anthony Downs, *An Economic Theory of Democracy*. (New York: Harper and Row, 1957); Giovannia Sartori, *Parties and Party Systems* (Cambridge, London, New York, Melbourne: Cambridge

and blocs, my analysis uses a data set authored by Alexander's Sobyenin's (1994) Information - Analytical Group (IAG).<sup>20</sup> Sobyenin developed a 200 point rating scale. The political ratings of the deputies are gauged within a range between +100 and -100. The highest ideological scores (+100) reflect the left or radical reformers. The lowest scores (-100) indicate the right as defined by the conservative deputies.

The Sobyenin (1994) scores offer simple guidelines to assess the a-priori willingness of Russia's political parties to bargain around pro-reform and anti-reform positions. To better gauge the policy distance for each congress, I also calculated a weighted cleavage conflict indicator.<sup>21</sup> The cleavage conflict indicator is designed to specify systemic patterns of concentrated or disbursed party systems. The closer parties are to one another, the more possibilities exist for creating majorities out of the possible party combinations. The lowest scores (15 to 25) represents a tight concentration of parties or a close proximity in terms of policy distance. Consequently, stable legislative coalitions are likely to form. Moderate scores indicate some

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University Press, 1976).

<sup>20</sup> IAG, formed in 1989 then provided research support to the Interregional Group of Deputies, the first organized and democratic opposition group in the Soviet Union since the 1917 revolution. The Information-Analytic Group gathered comprehensive data on the backgrounds and voting patterns of the deputies which enabled democratically-oriented deputies to develop more effective legislative deputies. In addition, the IAG helped organize Democratic Russia for the 1990 elections. After the 1990 elections, IAG developed a data base on the Russian deputy corps and the pattern of support for and opposition against political and economic reforms. Thomas F. Remington, *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) p. 181.

<sup>21</sup> See Lawrence C. Dodd, *Coalitions in Parliamentary Government* (Princeton: Princeton University Press, 1976). pp. 105-114. Dodd used the cleavage index to calculate parliamentary polarization in 229 parliaments and 19 countries. The index was used to indicate the likelihood of parliamentary parties likelihood to form coalition governments. Dodd's polarization scale for each issue dimension is scored in a range of 15 points. Sobyenin's indicators, used for this study, were scored in a range of 200 points. Thus, it is difficult to use Dodd's findings for comparative purposes. Nonetheless the advantage of this indicator stems from weighting the ideological scores by the proportion of seats each party holds in parliament. The coefficient indicates the average variance that characterizes parliamentary parties. The variance summarizes how different the cases are from each other and how different each case is from the mean.

dispersion, but parties are close enough to form temporary coalitions ( 25-35). High scores are associated with a broad disbursement of parties with distant policy positions (35 +).

**Table No. 4.3 Ideological Scores for Congresses and the Supreme Soviet**

	Third	Sixth	Seventh	Eighth	Ninth
Congress	+2	-11	-21	-37	-32
Supreme Soviet	+12	-10	-23	- 44	-36
Cleavage Conflict Scores	30.1	32.9	40.1	69	63

*Source:* For Congress and Supreme Soviet data came from Alexander Sobyenin, “Political Cleavages Among Russian Deputies” in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) p. 184. Cleavage conflict scores calculated by author.

Sobyenin’s (1994) ideological summary scores for each congress reflect the average clustering of deputies around pro-reform and anti-reform positions. These scores also identify the progressive move of deputies from moderately liberal positions to conservative positions from the third to eighth congresses. The conflict indicator also shows the dispersion of voting blocs or their relative distance from each other congress to congress. Therefore, Russia’s conflict coefficients mark a progression from relatively close positions in policy distance to a wide disbursement. Therefore, the findings on polarization predict an increased a-priori willingness to bargain and form coalitions at the first through fifth congresses (using the third congress as a proxy for the other four). Coalition potential is predicted to decrease by the Sixth Congress and become unlikely by the seventh congress.



## **E. Summary**

According to Hypothesis 5, the more deputies are united in purpose (the fewer the number of parties, the greater the party stability, and the closer the policy distance), the greater the probability for inter-party cooperation. Given that electoral regimes vary and can be arrayed along a majoritarian to consensual spectrum, the chances for optimum collective decisions increase (1) when the chief executive enjoys a majority partisan advantage in parliament, or (2) when conditions permit the construction of enactment coalitions.

Highly disproportional, majoritarian rules are expected to give rise to two party systems and provide the executive with manufactured majorities. As the proportionality increases stemming from consensual proportional systems, multiparty systems emerge. Since there rarely is a single governing majority party in parliament, multiparty systems increase the demand for inter-party cooperation and coalitions. However, the more divided parties are in terms of their number and policy distance, the potential supply for stable coalitions decreases.

Russia used single member district plurality rules to conduct its 1990 elections. For a few months following the election, the communists could claim an overwhelming majority. But their membership declined precipitously prior even to the first congress. Neither the voting blocs nor factions could claim a majority in parliament. Therefore, inter-party cooperation was required to pass privatization legislation.

In part, Russia's choice of electoral regime can be linked to its party system development. SMDP rules proved ineffective as an aggregating mechanism and/or filter for extremist parties. The pattern of party development at first looked promising. Deputies competed within two polar blocs emulating a two-party system. Once the two large voting blocs began to fragment (following the Fourth Congress in May 1991), the faction system provided some sort of

coordinating mechanism around which deputies could register programmatic differences. The bloc system, that replaced the faction system, (following the Fifth Congress in November 1991) provided an even more effective structuring mechanism that emulated multiparty parliamentary politics.

Although the number of factions (14) and blocs (4) remained stable between 1991 and 1993, their membership and identity were highly mutable. Approximately, 188 deputies defected from liberal to centrist or conservative factions. The most serious consequence of deputy defections was the overall realignment of deputies to conservative positions. This process began at the Sixth Congress and consolidated at the Seventh Congress of People's Deputies.

In Russia, the level of polarization also varied from congress to congress. Tendencies toward increased policy distance first appeared at the Sixth Congress of People's Deputies. Thereafter, as policy distance increased exponentially, the potential for inter-party cooperation correspondingly decreased. Increased policy distance also appears correlated with other systemic indicators of polarization. The dispersion of blocs in support for and against reforms concurs with the increasing relevance of the anti-system Russian Unity bloc in parliament. Policy distance also appears to correlate with the type of party competition. As the competition in Russia began to resemble a multiparty system and deputies competed over multiple issue dimensions, the distance or the dispersion among the blocs increased.

Russia's moderate fragmentation, persistent instability, and variable levels of polarization predicts the likelihood that during specific junctures while not at others the reformers could construct legislative majorities. This proposition prompts several questions. In what ways did these systemic characteristics structure the interactions of Russia's blocs in parliament? What were the implications for the reformer's legislative strategy of coalition-building? In addressing

these questions, several propositions emerge from the analysis in the preceding section. These propositions permit refinement of the general argument especially regarding the coalition potential of proportional multiparty systems.

First, during the first four congresses (May 1990 to May 1991), bipolar competition increased the chances for policy change. The policy distance between the liberals and conservatives precluded collaboration. As long as the centrists remained amorphous without leadership, both had equal chances to attract votes from the center. If majorities could be assembled toward pro-reform positions, there also was a strong potential for concurrence between the liberal executive and legislative institutions on reform.

Second, under conditions of semi-fragmented competition (multipartism) and moderate policy distance (May 1991 to March 1992), the liberal Coalition for Reform could enact privatization legislation if it could sustain its own cohesion and draw a large number of votes from the left-center bloc known as Democratic Center. However, the liberal coalition was unlikely to find common ground with the right-center Creative Strength. The anti-system Russian Unity was unlikely to find coalition partners; the policy distance was too great to find common ground with either the Coalition for Reform and Democratic Center. The conservatives still could find instances of cooperation with Creative Strength. The likelihood for only the liberals to build case-by-case temporary coalitions is increased.

Third, semi-fragmented, multidimensional competition (April 1992 through December 1992) should be favorable for the rise of crisis coalitions. Multi-dimensional competition refers to new issue dimensions introduced during the transition such as presidential power, the Yeltsin presidency, and issues of social welfare. Previously, competition was structured by the traditional left-right conservative and liberal issue cleavage. With these changes, the potential

increased for divisions to emerge in the pro-reform party-like blocs. Concurrently, the issue distance decreased between the centrists and conservatives. Therefore, the opportunity emerged for Creative Strength to align with Russian Unity. Furthermore, the potential increased for the crisis coalition to draw in left-centrists from the Democratic Center and the liberal Coalition for Reform blocs.

Fourth, under conditions of semi-fragmentation, intense intra-party volatility, and polarization consistent with centrifugal competition, the potential for crisis coalitions should increase exponentially. The probability also should increase for return of a dominant left-right dimension and the formation of new polarized blocs. Centrists now competed with Russian Unity for the bulk of deputy support. Crisis coalitions also were possible between centrists and the Coalition for Reform. Fragmentation, defections, combined with the divide on presidential powers hindered collaboration among liberal parties. Although, liberal factions and blocs may have remained close in the policy space, their voting weight decreased.

In sum under the first and second set of conditions that are characteristic of moderate pluralism increased the likelihood of policy change. But the likelihood of radical changes of the policy status quo decreases under the third, and becomes impossible under the fourth in which the faction/party system assumed the appearance of polarized rather than moderate pluralism.

## **II. Intra-Country Cases -1990 to 1993**

In Russia between 1990 and 1993, there are seven cases illustrative of a possible correlation between changes in the partisan context and major privatization laws enacted in parliament. The cases include (1) the early laws on privatization in 1990; (2) the State Privatization Act of 1991; (3) the Basic Provisions of 1992; (4) the First Reading of the 1992

State Program; (5) the Resolution on Economic Reform at the Sixth Congress of People's Deputies; (6) The Second Reading and Passage of the State Program of 1992; and (7) the State Programs of 1993 and 1994.

Below, I examine these cases in five sections. The first section is a brief exploration of the relationship between Russia's short-lived emulation of two-party competition and the privatization legislation that predated the mass privatization program. In the following sections, party system characteristics are evaluated for each case. Then I use these patterns to predict the possible coalition types and potential for majority enactment coalitions. I then compare the predicted coalition potential to the actual outcome -- the enactment coalition for the first reading of the 1992 State Program, the Resolution on Economic Reform, the second Reading of the 1992 State Program, and the proposed State Program for 1993.

#### **A. Parliamentary Passage of the Neoliberal Provisional Program for 1992**

The Basic Provisions for 1992 were the temporary laws that implemented small-scale privatization and introduced the neoliberal preferences of the new reform team. The program outlined initiatives that later became the center of conflict among the deputies. The neoliberal version favored outside owners (both domestic and foreign) and disadvantaged enterprise management and labor; it restricted preferential shares to be given to employees. The Basic Provision restricted the methods for privatization to asset sales and delayed free distribution of property. In addition, the scope of privatization was widely expanded; the document identified specific industrial and business sectors economy-wide to be privatized and the strategic sectors of the economy that would remain in state hands.

The Basic Provisions offer only a very limited example of the relations between partisan conditions and legislative outcomes. One reason is that the law was passed by the Presidium not

the full assembly. I included them as an illustration of the high point of parliamentary and governmental agreement on the goals of privatization. The partisan composition of the presidium membership also could have played some role. In March 1991, the institution was comprised of conservative centrists, moderate centrists, and a few liberals.<sup>22</sup> Anti-communist sentiment temporarily precluded the inclusion of orthodox communists or nationalist-patriots in the parliamentary leadership.

In December 1991, parliamentary partisan conditions reflected the euphoria of pre-independence Russia. The easy passage of the provisional program can be attributed to a short-lived moment of liberal dominance. December 1991 was Russia's period of transitional extraordinary politics. Chubais (1999), writing on the passage of the Basic Provisions, cites that the deputies needed to demonstrate their democratic credentials "by supporting reform, privatization, and private property."<sup>23</sup> Communists and their solutions for Russia's future temporarily had been largely discredited.<sup>24</sup> The president, the government, and the parliamentary leadership were unified in their interests to advance the reform agenda. In addition, the full implications of government's new neoliberal privatization strategy were not well understood.

## **B. The First Reading of the 1992 State Privatization Program**

The government's full-fledged legislative program for privatization was submitted to the Supreme Soviet in March 1992. Legislative passage required two readings (debate and

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<sup>22</sup> See Jeffrey Gleisner, Leonti Byzov, Nikolai Birykov, and Viktor Sergeyev, "Parliamentary Control in Russia" *Journal of Contemporary History* Vol. 31 No. 3 pp. 427-461 for a discussion of the changing partisan composition of the Presidium. The leadership included the Chair, Rhuslan Khasbulatov who later would align with the conservative centrists and some communists. Other leadership figures included Sergei Filatov, who was the leader of Left-Center, Viktor Chernomyrdin, a strong ally of the industrialists, and Vladimir Shumeiko also a representative of the military industrial complex.

<sup>23</sup> Anatoly Chubais "Kak mwi probivali nashy programmy" *Privatizatsiia Po-Rossickii* (Mosva: Vagrius, 1999), pp. 78-79.

<sup>24</sup> The communists were in disrepute because of the August 1991 coup attempt. In the fall of 1991, the CPSU was put on trial in the Supreme Soviet, its property was confiscated, and Yeltsin issued a decree banning its operations in Russia. The communists took until spring 1992 to regroup.

deliberation over the bill). The first reading took place just prior to the Sixth Congress of People's Deputies on March 20, 1992. The second reading followed the Congress at the end of May. The first reading entailed circulating the proposed bill among all the deputies, gathering responses and recommendations from all the regions of the country, and reconciling major outstanding issues.<sup>25</sup> The vote on the first reading was important since it usually signified general acceptance of a proposed piece of legislation. The legislation was overwhelmingly passed with a vote of 175 for, 30 against and 20 abstentions.

In mapping out partisan conditions in parliament, the overall pattern resembled the moderate pluralism of the preceding first through fifth Congresses of People's Deputies. The competition for votes retained its centripetal character. In the Supreme Soviet, the main axis of competition was the left-right economic reform dimension. However, the new issue dimension regarding the distribution of power between the executive and legislative branches as well manifested on specific issues.

The Supreme Soviet also differed from the previous congresses. Deputies now began to organize within the four voting blocs. Prior to Russian independence on January 1, 1992, some collaboration within the previous bipolar configuration could be assumed. Once, the "party-like" blocs<sup>26</sup> had formed and remained loose configurations, cooperation could not be taken as a given. Post-independence events -- the presidency, the fall of the Soviet Union, and shock therapy -- also clouded the issue of collaboration.

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<sup>25</sup> Anatoly Chubais "Kak mwi probivali nashy programmy" *Privatizatsiia Po-Rossickii* (Mosva: Vagrius, 1999) p.78.

<sup>26</sup>The term "party-like" represents a judgment on whether the blocs represented a vehicle for elite competition (not representative links between the deputies and their constituencies. See Thomas F. Remington, Stephen S. Smith, D. Roderick Kiewiet, and Moshe Haspel, "Transitional Institutions and Parliamentary Alignments in Russia: 1990-1993," in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) pp. 159 -180.

In addition, between the passage of the Basic Provisions and the first reading of the proposed legislation for the State Program of 1992, the government had introduced the State Program for 1992 to the public<sup>27</sup> The debate that ensued helped deputies to clarify and sharpen their interests. In some respects, the debates set benchmarks identifying the policy distance between the parliamentary blocs. The policy competition also established the distance between the preferred policies of the deputies and the neoliberal strategy of the government.

In lieu of survey evidence for the spring Supreme Soviet session, my analysis below, draws heavily on published materials related to the public debate including factional statements and party programs. The aim is to differentiate the positions taken by the four blocs as a predictor of inter-party cooperation. These findings are used as a first rough approximation of policy distance and the possible coalition formations necessary for a legislative majority.

### **1. The Four Voting Blocs, Fragmentation, and Privatization Issues**

The discussion below outlines the relative influence of each bloc and their stance on privatization. To ascertain their relative policy distance on privatization, their positions are evaluated on first whether they were pro-privatization. If they were pro-privatization, then I examined their positions on five core issues (if they asserted one) that arose in the debate related to the design and implementation of privatization. These included: (1) stakeholder's claims to property, (2) the pace of privatization, (3) the sequencing of privatization, (4) the methods and (5) the distributive formulas. If they departed from the government on all issues, they were viewed as weakly opposed. If a faction or bloc rejected privatization in principle it was placed at the opposition end of the spectrum.

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<sup>27</sup>The proposed legislation was published in *Zakon*, the supplement to *Izvestia*.. Irina Demchenko, "Plus, the Complete Privatization of All Russia? *Izvestia*, February 8, 1992 p.1 Cited in *CDPSP* Vol. XLIV, No. 6 1992. p. 25.



In January 1992, although anti-communism sentiment still pervaded the politics of identity and discourse in Russia, the Russian Unity bloc still had some influence. In the Supreme Soviet, the communist and nationalist deputies had 25 percent of the vote or 60 seats; in the Congress of People's Deputies they held approximately 30 to 33 percent of the vote and 311 seats. On previous votes regarding the early privatization laws (the institution of private property as a constitutional amendment, the privatization of land, and the Privatization Act of 1991), they had voted cohesively. When the communists had attracted the majority of votes from the center, they defeated liberal legislation.

However, during the January-March policy debate, Russian Unity deputies appeared divided on their respective positions. The Communists of Russia included deputies who were opposed to privatization on ideological grounds. Other members of the faction agreed to some reform. These communist deputies demanded the return of all property to the workers of an enterprise; they also fought to sustain the collective form of property rights.<sup>28</sup> Some called for division of all property in equal portions.<sup>29</sup> The Russian Party of Communists while rejecting privatization per se, called instead for destatization and demonopolization prior to privatization.<sup>30</sup> In sum, Russian Unity fell at the polar anti-privatization end of the spectrum.

In contrast, the liberal Coalition for Reform would be expected to be the government's strongest ally. The Coalition held 20 percent of the vote or 50 seats in the Supreme Soviet. The democratic deputies strongly supported privatization. The liberals in Democratic Russia and the Radical Democrats had strongly endorsed the constitutional amendment to legalize private property. During the vote on the first privatization act in July 1991, the liberals pushed the frontiers of property reform by including provisions for forced corporatization, mass

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<sup>28</sup> *Rossiskaya Gazeta*, May 10, 1991, p. 3.

<sup>29</sup> *Ibid.*

<sup>30</sup> *Ibid.*

privatization, and the use of individual privatization accounts. Nonetheless, the liberals were divided on how to proceed with privatization during the public debate and subsequently in the Supreme Soviet. The Radical Democrats generally endorsed the government's neoliberal strategy. But deputies representing Democratic Russia departed from the government's strategy on the entire range of issues.

In contrast to the government, the radical liberal economists Larisa Piiasheva and Vasily Selyunin of Democratic Russia argued for a faster pace of privatization than the government. They also endorsed full employee ownership rather than the distribution of property to all citizens. Correspondingly, they rejected the government's emphasis on outside owners and the distributive formula of 25 percent shares to employees. Instead of competitive bidding and auctions, they favored investment accounts.<sup>31</sup> Piiasheva also proposed a different sequencing of reforms; in her proposal rapid privatization should have preceded further liberalization.<sup>32</sup>

The moderate reformers in Democratic Center also were pro-privatization; they held 31 percent of the vote in the Supreme Soviet or 80 seats. Positioned just left of center, these deputies wanted some revision of the proposed bill. Democratic Center included the factions Left-Center, the Non-Party Deputies, Free Russia, and the Workers Union. As representative of labor, the trade unions met with Chubais to strike a different bargain for themselves.<sup>33</sup>

<sup>31</sup> "Given Free of Charge, Memoranda to the Russian President on the Most Reasonable Method of Privatization," *Izvestia*, February 14, 1992 p. 3 cited in *CDPSP* Vol. XLIV, No. 5 pp. 5-6. Piiasheva and Selyunin went as far to as write a memorandum to the president called a "More Reasonable Method for Privatization," The radical group argued against the government's plan (1) to distribute 25 percent of the authorized capital stock in a joint stock company (2) in the form of nonvoting preferred stock, and (3) the additional provisions that allowed employees to purchase only 10 percent of voting shares at a discount.

<sup>32</sup> Ibid. p.5. In addition to a no-cost method, the return of property to employees only and rapid privatization, the Piiasheva-Selyunin plan also rejected excluding enterprises in strategic industries for privatization. The sequencing strategy was intended to permit demonopolization prior to privatization. Demonopolization would definitively break up the ministries. Piiasheva called for demise of "pseudomarket structures -- concerns, associations, trusts -- created by nomenklatura -- engineered mergers or simply name changes would be dissolved. Research and production associations would be eliminated for the period of privatization."

<sup>33</sup> Lev, Tsvetkov, "Anatolii Chubais, Property Received as Gift Will Not Make a Person an Owner," *Izvestia*, February 26, 1992 p. 2 cited in *The Current Digest of the Post-Soviet Press* Vol. XLIV, No. 5 p.

Led by the Russian Union of Industrialists and Entrepreneurs (RUIE), Creative Strength also supported privatization. As conservative-centrists, they argued against the forced corporatization of the large industrial enterprises, and reiterated the rights of stakeholders. These deputies also wanted significant changes regarding methods and distributive formulas; they argued for a much slower pace of privatization than the government or Coalition for Reform. Since the centrists tended to represent the interests of enterprise employees, they demanded the most radical distributive formula favoring full management ownership control (instead of the government's offer of shares representing a controlling block of votes).<sup>34</sup> The right-centrists also held 20 percent of the vote or 50 seats in the Supreme Soviet.

To summarize, the conservative Russian Unity assumes a position on privatization at the polar conservative end of the ideological spectrum. Despite divisions among its ranks, Russian Unity's orientation toward privatization was consistent with their general opposition toward reform. While a proponent of some form privatization, Creative Strength rejected all of the government's stated positions. Thus it fit into a category of those weakly to moderately opposed to the government's program; it is situated to the right of Russian Unity. Given its approval of privatization, the Democratic Center orientation placed it to the left of center although its labor constituency was opposed to the government's distributive formulas. Although the liberal Coalition for Reform strongly endorsed privatization, many of its members expressed too many objections to fit at the polar orientation on the ideological spectrum. Instead, the Russian government and Chubais occupied the most radical, neoliberal position.

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6-7; Irina Demchenko, "Plus, the Complete Privatization of All Russia? *Izvestia*, February 8, 1992 p1. cited in *CDPSP* Vol. XLIV, No. 6 1992. p. 25; Ivan Zhagel, "Collectives Want 25% of Property Free of Charge--To Start With," *Izvestia*, February 8, 1992 p. 1, cited in *CDPSP* Vol. XLIV, No. 6 1992, p. 26

<sup>34</sup> Ibid, p.26.

## 2. Coalition Type and Potential

Given the above discussion, what were the prospects for inter-party collaboration? Chart 4.1 below maps out the government's potential coalition partners. The dyads are configured given their support of privatization as a worthy goal unto itself and possible coincidence of interests. The key determinant appears to be the close policy distance uniting the voting weights of the liberals and left-centrists. However, the government's position was outside the range of the median voter in parliament. Therefore, it would be expected that the government's chances for success would be increased by compromises that included some moderation of its radical stance towards property reform.

**Chart No. 4.2 Potential Coalition Dyads: March 1992 through June 1992**

Coalition for Reform 20 %	> <	Democratic Center 30%	◇	Creative Strength < 20%	Russian Unity 25%*
Radical Democrats Communists of Democratic Russia		Left-Right		Industrial Union	
		Smena Free Russia Motherland Workers of Russia		Sovereignty and Equality	Russia Agrarian Union Rossiya Fatherland

\* The remaining 5 % represented unaligned deputies.

The arrows represent the directionality of the possible coalition partners

Two arrows means a coalition is possible

One arrow indicates an unfeasible coalition

Coming into the first reading in March 1992, the reformers expected the communists to be the main opposition to the proposed legislation. To some extent, their reasoning was sound. The communists slowly were revitalizing their standing. Russian Unity's increased influence reflected the recent alliance of the red-brown irreconcilable opposition. Concurrently, the communist and nationalists continued to use the privations from shock therapy and discontent over the collapse of the Soviet Union as lightening rod issues.

Although coalition analysis indicates that the communists had bolstered their voting strength in the Supreme Soviet, but it also predicts that they had little coalition potential. Russian Unity did not share overlapping positions with the other three parliamentary blocs regarding issues that were likely to be on the policy agenda. Although paradoxically, they shared the liberal Piiasheva position that property should be transferred back to the work collective, they stood in sharp disagreement with Democratic Russia's plan for rapid, radical privatization to break up the monopolies. The communists favored the return of property to the collectives. So they did not share Creative Strength's support for the enterprise directors as the prime beneficiaries of privatization.

By contrast, Chart 4.1 indicates the likelihood of a centrist coalition. However, as in the Sixth Congress that was to follow, the left and right centrists still lacked the leadership and organization. The mostly likely alliance was a liberal and centrist enactment coalition. Given the coalition potential predicted above, Chubais still was unlikely to keep his proposal intact. Chubais was left with three strategies. To legislate the program, he could use persuasion to move liberal and centrist deputies closer to his position, offer material incentives for deputies to change their positions, or split the difference on specific issues to shape a coalition that would support his package.

### **3. Coalition Formation, Negotiated Bargain, and Side-Payments**

True to expectations, during the first reading Chubais had to negotiate several compromises. The compromises were fashioned to incorporate deputy preferences from Creative Strength, Democrat Center, and the liberals in Democratic Russia. The issues that required the most intensive negotiation included the methodology of privatization, the valuation of property,

and the institutional management of privatization.<sup>35</sup> On the methodology of privatization, Chubais agreed to a provision for the collective to directly purchase an enterprise in addition to the main methods of competitive bidding and auctions.

Chubais also negotiated a compromise on the issue of closed-subscription (strictly insider privatization) versus the market-oriented open-subscription. The compromise kept the neoliberal objective of sales to outsiders intact by incorporating a time-delimited period of closed subscription. The closed subscription phase then would be followed by open competitive bidding for the bulk of the remaining shares. Chubais also negotiated with the liberals. He won their support by giving in on the issue of the distribution of property through privatization accounts; the date for initiating this method was moved up from January 1993 to October 1992.<sup>36</sup>

With regard to the valuation issue; it was resolved technically rather than politically. The deputies agreed that the starting value of a state enterprise should be estimated from the residual balance-sheet rather than projected earnings. The institutional management of privatization in the short-term proved to be more difficult to resolve. To achieve passage of the privatization proposal on the first reading, the government fashioned another compromise solution. In this instance, the authority for holding shares would temporarily be turned over to GKI until the Federal Property Funds could be made operational.<sup>37</sup>

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<sup>35</sup> Mikhail Berger, "State Property Committee Prepares to Turn Over Property, *Izvestia*, 27 March 1992 p.2 cited in CDPSP

<sup>36</sup> Ibid., p.2.

<sup>37</sup> Anatolii Chubais, "Rynd vtorii verknogo cobet" in Anatoly Chubais ed. *Privatizatsiia Po- Rossiiskii* (Moskva: Vagriiys, 1999) p.87. Following Chubais' account, while the GKI had established the capacity nationwide for implementing privatization, the Supreme Soviet had not developed the institutional apparatus for the actual holding of shares for sale once the process of corporatization had taken place. This would have delayed the implementation of privatization indefinitely.

#### 4. Summary: Coalition Determinants and Enactment Majorities

In sum, the construction of a strong enactment majority appears to be facilitated by the moderate, centripetal competition, the loose bloc voting, and the willingness of parties close in the policy space to engage in inter-party cooperation. The majority of the 175 votes necessary for the overwhelming passage of the bill came from a *broad-based* centrist-liberal coalition -- the Coalition for Reform, Democratic Center and Creative Strength. Russian Unity, according to Chubais, mostly accounted for the total 50 negative votes (against and abstentions).<sup>38</sup> However, as the discussion indicates the winning coalition only was a temporary coalition.

Given the possible coalition dyads, and Chubais's willingness to negotiate, the outcome appears somewhat predictable. Legislative passage required the participation of Democratic Russia as the natural base of support and the deputies from Democratic Center. Constructing a legislative majority would have been less likely and more costly, if Democratic Center and Creative Strength had already formed a voting alliance based on their disagreements with the Chubais program. In March 1992, these two blocs still lacked the organizational and leadership capacity to outflank the Coalition for Reform or Russian Unity.

Russian Unity and Creative Strength also could have formed a possible temporary coalition. Their ideological political scores indicate that they were not too distant to preclude some alliance. However, four months after the fall of communism even a temporary alliance was unlikely because of Creative Strength's antipathy to the former communist regime. Even if the conservative and center-right blocs had aligned, they only controlled 80 votes about 40 votes less than needed for an enactment majority. Instead, Creative Strength pursued the alternative strategy of slowly winning small gains toward their preferred policy outcome. Russian Unity

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<sup>38</sup> Anatolii Chubais, "Rynd vtorii verknogo cobet" in Anatoly Chubais ed. *Privatizatsiia Po- Rossiiskii* (Moskva: Vagriiys, 1999) p.87.

chose isolation, while Creative Strength apparently chose to ally with the reformers in exchange for some form of closed subscription methods.

### **C. The Sixth Congress of People's Deputies: Realignment and Multipolarity**

After being approved during the first reading in the Supreme Soviet, Chubais's proposed legislation was submitted to the Sixth Congress of People's Deputies. The Supreme Soviet passage was intended to set the stage for further endorsement of the privatization bill in the Congress. According to Chubais, Khabulatov charted this course; the Speaker used the rationale that congressional approval would perhaps substitute for a second reading in the Supreme Soviet.<sup>39</sup> The initiative was included in the President's Report to the Congress on the Progress of Economic Reform.

At the same time, the Sixth Congress was a turning point in Russian legislative politics. The Congress was the first that followed the dissolution of the USSR in December 1991, the implementation of shock therapy, and the president's use of his delegated powers.<sup>40</sup> In the Sixth Congress, partisan conditions departed from previous Congresses and the recent Supreme Soviet session. To illustrate these differences, the changes in polarization and fragmentation are mapped out below.

First, the levels of polarization increased in response to new policy dimensions that replaced the single left-right divide.<sup>41</sup> Second, the pattern of partisan competition still retained centripetal characteristics. Centrifugal forces also emerged pushing deputies toward extreme positions. Third, with differing levels of success the four voting blocs attempted to

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<sup>39</sup> Anatoly Chubais, "Rynd vtorii verknogo cobet" in Anatoly Chubais ed. *Privatizatsiia Po- Rossiiskii* (Mosva: Vagriiys, 1999). pp.87.

<sup>40</sup> Ibid. pp. 87-90.

<sup>41</sup> Thomas F. Remington, Stephen S. Smith, D. Roderick Kiewiet, and Moshe Haspel, "Transitional Institutions and Parliamentary Alignments in Russia: 1990-1993," in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) pp. 168-170.



formalize as party-like organizations. The three changes combined to introduce elements of uncertainty into coalition politics. For instance, the interactions among the blocs were not as predictable, since each did not as previously clearly align along pro-reform and anti-reform positions.<sup>42</sup> Nonetheless, an important continuity was the 200 unaligned deputies who in previous congresses functioned as a swing vote.

## **1. Issue Dimensions and Political Competition**

Of all the changes in partisan conditions at the Sixth Congress, arguably the most important was the emergence of multiple issue dimensions. At the first four congresses, a single left-right dimension structured the voting.<sup>43</sup> By the sixth Congress, the economic reform divide was still salient among the blocs. Constitutional issues also had gained a new urgency.<sup>44</sup> The most prominent were the president's powers, the distribution of powers between the two branches, governmental performance, and presidential appointments.

The new political divides cross-cut with the bloc's positions on economic reform.<sup>45</sup> Consequently, the disappearance of the anti-reform and pro-reform divide expanded the possibilities for new types of coalitions. In addition to the Russian staple of temporary, issue-specific majorities, the most predictable and consequential were the new phenomena of

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<sup>42</sup> Ibid. p. 168.

<sup>43</sup> Thomas Remington, "Ménage à Trois: The End of Soviet Parliamentism," in Jeffrey W. Hahn, ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk, N.Y. And London, England: M.E. Sharpe Inc., 1996). p.

<sup>44</sup> Jeffrey Gleisner, Leonti Byzov, Nikolai Birykov, and Viktor Sergeyev, "Parliamentary Control in Russia" *Journal of Contemporary History* Vol. 31:3 pp. 427-461. Jerry F. Hough, "Legislative Structure and Party Development," in Jeffrey W. Hahn ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk, NY: M.E. Sharpe, 1995) pp. 83-105.

<sup>45</sup> See Thomas F. Remington, Stephen S. Smith, D. Roderick Kiewiet, and Moshe Haspel, "Transitional Institutions and Parliamentary Alignments in Russia: 1990-1993," in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) pp. 159 -180.

crisis coalitions Crisis coalitions form when two or more parties who normally are distant in the policy space unite on a one-time only basis on a highly controversial issue.

## **2. Parliamentary Blocs and Voting Weights**

The introduction of multiple policy dimensions framed structural organizational changes among the factions and blocs. As in the previous Supreme Soviet legislative session, the previous bipolar pattern of two large voting blocs competing for the center had disappeared by April 1992. Just prior to the sixth congress, the factions that comprised each bloc held meetings or congresses to formalize their new arrangements. Of the 865 deputies that belonged to the blocs, Russian Unity had approximately 316 deputies or 30 percent of the potential votes.<sup>46</sup> Creative Strength had 197 deputies or 20 percent of the votes. The Coalition for Reform had only 139 deputies or 13 percent of the votes. Previously, the liberals generally were joined by Democratic Center that had 213 deputies and 22 percent of the votes. A liberal-centrist coalition could manage approximately 35 percent of the vote. In sum, the four blocs held 82 percent of the votes; beginning with the liberals to the conservatives, the pattern of voting weights was 13 percent, 22 percent, 20 percent, and 30 percent, respectively.

Under these conditions, the 195 to 200 deputies that were known as the “amorphous center” or “swamp” became critical for a liberal enactment majority. The independents constituted approximately 18 percent of the vote. Previously, these deputies were the subject of competition by the two blocs. In the Sixth Congress, the relevance of “the swamp” depended on whether the majorities were constructed out of crisis or issue-specific temporary coalitions. The probabilities for a crisis coalition were determined by the multiple issue space. Alternatively, issue-specific coalitions depended on policy distance on a single issue. On distributive issues

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<sup>46</sup> All of the bloc numbers are based on Alexander Sobyenin's, “Political Cleavages Among Russian Deputies” in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994). pp. 181-215.

such as privatization, economic interests appeared to supersede constitutional concerns. Below my discussion explores these two possible coalition types. I use data garnered from studies conducted by Alexander Sobyenin's (1994) Analytical Research group and the Russian Sociological Monitoring Service. The following sections outline first the findings regarding policy distance. Second, these patterns are used to consider the possible formation of a crisis coalition at the sixth congress.

### **3. Coalition Potential and Policy Distance**

Table 4.3. outlines the ideological scores calculated for each faction at the Sixth Congress of People's Deputies. To estimate the policy distance, I recalculated Sobyenin's scores for the Sixth Congress to get the mean bloc scores. At the liberal end of the spectrum, the scores ranged between + 100 and +33. Moderate centrist scores overlap beginning at +45 to -33. Conservative centrists weakly opposing reform begin at -33 to -50. Ultraconservatives were characterized by scores in the range of -72 to -89.

Of the parliamentary parties, the Coalition for Reform held the strongest pro-reform position with score + 86 out of a total of 100. This level of support was consistent with previous congresses. Nonetheless, the government could not take the Coalition's support for granted. The Coalition had formed to facilitate the legislation of liberal reforms. In part, their allegiance stemmed from their ideological positions. However, prior to the Congress the liberals also entered into a formal agreement with the president. The protocol required that the coalition would have some influence on policy ex-ante to its submission to the Supreme Soviet for legislative approval.<sup>47</sup>

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<sup>47</sup> The Russian President had chosen to stand above party. Yeltsin also had neglected to build a support base in the legislature. After signing the Coalition accord, he failed to keep his part of the agreement.

The next strongest supporters of reform were the Democratic Center with a moderate score of +39. The score reflected a growing distance between the liberals and centrists resulting from their differing perceptions of the government's performance by the time of the Sixth Congress. The centrists were dissatisfied with the social consequences of shock therapy. In addition, they expressed discontent with the government's unwillingness to accommodate their social democratic views. Therefore, inter-party cooperation was still possible; the two blocs supported property reforms. To secure issue-specific support from the centrists, the government had to engage in negotiated bargaining and compromise.

In contrast, Creative Strength's score of -36 reflected their opposition to the governments's neoliberal legislative agenda. While representing the interests of Russia's enterprise managers, Creative Strength did not outright reject privatization. In addition, the bloc gained new leadership from their association with the Russian Association of Industrialists and Entrepreneurs (RUIE). Increasingly, these deputies coalesced around their opposition to shock therapy, the withdrawal of subsidies to enterprises, the government's performance, and presidential powers.

Russian Unity's score of -77 reflected their role as the "irreconcilable opposition" to the government and its program. The changing ideological positions of the centrist blocs opened up the opportunity for Russian Unity to mobilize deputies around extremists appeals and issues. Multiple issue dimensions related to the competence of the government and the new "democratizing" regime created pressures toward centrifugal competition. Russian Unity attempted to exploit the new pattern by mobilizing deputies by opening the congress with the no-confidence measure.<sup>48</sup> They also tried to undermine the transition by their rejection of issues related to drafting a new constitution -- the renaming of the Russian state to reflect its new

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<sup>48</sup> "The Sixth Congress of Russian Federation People's Deputies -- Verbatim Report," *Rossiskaya gazeta*, April 8, 1992 pp. 4-6 cited in the *CDPSP* Volume XLIV, No. 14, May 6 1992 p. 1-5.

independent status, and the legitimacy of the new Commonwealth of Independent States that had replaced the Soviet Union.<sup>49</sup> The ultra-conservatives also were joined by right-centrists from Creative Strength (Sovereignty and Equality deputies) who led the campaign to reject the government's progress report on economic reform.

#### **4. Crisis Coalitions at the Sixth Congress**

To summarize, the emergence of multiple issue dimensions, the voting bloc pattern, and extremist pressures on the moderate centripetal competition predicted the likelihood of a crisis coalition. At the Sixth congress, a crisis coalition would arise if centrist deputies, who normally were anti-communist, joined with ultra-conservative factions to press for more control over the executive. More significantly, liberal deputies who strongly supported radical economic reforms could join with the conservatives and liberals to align against the president and his use of presidential powers.

#### **5. The Centrist-Communist Crisis Coalition and the Two Votes on Economic Reform**

Against the background of multidimensional issues, centrifugal pressures, and shifting alliances, the Chubais plan for privatization was submitted to the Congress as part of the larger package of economic reforms. Writing on the Sixth Congress, Chubais notes that attaining a satisfactory assessment from the deputies included the following: (1) the development of the legal framework for large-scale privatization (e.g., approval of the program on its first reading); (2) the resolution of difficulties in developing the institutional mechanisms for implementation; (3) the development nationwide of the GKI as the institutional component necessary for policy implementation; and (4) the control of spontaneous privatization (e.g., the entire series of decrees and orders issued since November 1991).<sup>50</sup>

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<sup>49</sup> Robert Minasov, Olga Burkaleva and Aleksandr Linkov, "They Have Shifted From Covert to Overt Confrontation," *Rossiiskaya Gazeta*, April 15, 1992, p. 1 cited in *CDPSP* Volume XLIV, No. 15 p. 6.

<sup>50</sup> Anatoly Chubais, "Rynd vtorii verknogo cobet" in Anatoly Chubais ed. *Privatizatsiia Po- Rossiiskii* (Moskva: Vagriiys, 1999) p.87.

Despite the government's progress on these measures, the privatization program was declared unsatisfactory.<sup>51</sup> On April 11, 1992, the Sixth Congress passed "the Resolution on the Progress on Economic Reform." The vote symbolized the deputies' grievances toward shock therapy including the privations imposed on the Russian population, the sharp drops in manufacturing production, and near depression conditions. The vote passed with overwhelming support from across the spectrum; deputies converged through a crisis coalition of liberals, moderate centrists, centrists, and the ultraconservative.<sup>52</sup> The rejection of the president's report represented a protest vote against the effects of shock therapy but also the deputies frustration with executive unilateralism and power." The Resolution on Economic Reform" was followed by 300 additional, proposed amendments submitted by opposition deputies.<sup>53</sup> If these measures had passed, they would have effectively dismantled economic reform and privatization.

On April 15, 1992, intensive negotiations between the parliamentary leadership and government led to a reversal on the part of the deputies. Subsequently they passed a "Declaration in Support of Economic Reform." The vote consisted of 585 affirmative votes, 203 opposed, and 64 abstentions.<sup>54</sup> This vote also could be viewed as an example of a crisis coalition. The crisis coalition reflected the coalescence of reform-minded centrist deputies, who apparently submerged their differences with the government to save the reforms. The enactment majority formed from approximately 300 votes from the Coalition for Reform, the moderate

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<sup>51</sup> Ivan Yelistratov and Sergei Chugayev, "The Congress Gives a Standing Ovation To The Federal Treaty, But When Its Sits Down It Cannot Assess The Progress Of Reforms," *Izvestya*, April 10, 1992 p. 1 cited in *CDPSP* Volume IV, No. 14, May 6, 1992, p. 5. See also *Izvestya*, April 13, 1992, p.1 cited in *CDPSP* Volume IVIII, p. 6.

<sup>52</sup> Ibid. *Izvestya*, p.1.

<sup>53</sup> Konstantin Katanyin. "They Made a Real Mess of Things," *Kuranty* April 14, 1992. p.1 cited in *CDPSP* Vol. XLIV. 1992. p. 6 The 300 amendments were on budget, financial policy, and legislative norms.

<sup>54</sup> "Declaration of Support for the Economic Reform in the Russian Federation" *Rossiiskaya gazeta*, April 18, 1992, p. 1 cited in *CDPSP* Vol. XLIV, No. 15 p. 8.

Democratic Center, and Creative Strength, the more conservative centrists. The remaining 285 votes came from the independent deputies known as “the swamp.”<sup>55</sup> The vote also represented a costly negotiated bargain; the president obtained continued support for reform in exchange for personnel changes in the government. The crisis type coalition became a persistent phenomena for the rest of the year in the Supreme Soviet and at the Seventh Congress of People’s Deputies.

**Table No. 4.3 Ideological Scores of Deputies at the Sixth Congress - April, 1992**

		A	B	C	D	E	F
Values range from from -100 against+ 100 for	Number of Deputies	Confidence in Government opposition to government	Against Defending Ruble Patriotism	Creation of CS state-building	Sobyanin Score	Myagkov and Kiew et Nominate Scores	Average Factor Analysis Score
<b>Coalition for Reform</b>							
Democratic Russia	73	74	86	91	83	23	1.1
Radical Democrats	66	86	89	79	89	45	1.2
	139						
<b>Democratic Center</b>							
Left-Center Cooperation	65	71	94	76	45	16	0.8
Free Russia	64	61	84	52	32	0.09	0.6
Workers Union	41	22	62	64	0	0.01	0.7
	170						
<b>Creative Strength</b>							
Industrial Union	72	-1	46	-3	-49	-0.2	-0.3
Change New Politics (Smena)	52				-30		
Sovereignty and Equality	73	13	36	10	-29	-0.2	-0.6
	197						
<b>Russian Unity</b>							
Communists of Russia	59	-80	-36	-69	-89	-0.54	-1
Fatherland (Otchizna)	54	-72	-43	-66	-61	-0.39	-1
Russia	54	-52	-2	-46	-77	-0.35	-0.6
Agarar Union	149	-72	5	-55	-72	-0.39	-0.8
	316						
Non-party Deputies	43	68	79	77		1.1	1.1

Source: Gordon M. Hahn, “Opposition Politics in Russia” *Europe-Asia Studies*,” Vol. 46, No 2 (1994), pp. 305-335; Alexander Sobyanin, “Political Cleavages Among Russian Deputies” in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994). pp. 181-215.

<sup>55</sup> Anatoly Karpychev, “Who Won In the Kremlin?” *Kuranty* April 24, 1992, p. 4 cited in *CDPSP* Vol. XLIV, No. 16 p. 9.

In addition to the crisis votes on economic reform, a plethora issues were on the Congress's agenda. The question arises how the deputies aligned on votes aside from instances of "crisis" votes. The discussion below assesses whether issue-specific coalitions still were possible. The analysis thus considers the voting patterns of the factions that comprised the party-like blocs.

## **6. Russian Unity's Influence and Coalition Potential**

At the Congress, Russian Unity, representing the "irreconcilable opposition" led the assault on economic and political reform with its 310 deputies. Some variation differentiated the depth of opposition among the factions comprising Russian Unity. However, the bloc voted consistently against reforms and the executive. In addition, the bloc voted cohesively 62.5 percent of the time.

On the first bell-weather vote, Russian Unity led the vote of no-confidence against the government (-100 represented total opposition to the government). Russian Unity's factions responded between -52 (Rossia) to -80 (Communists of Russia). The second vote, dealing with the future of the Russian state, elicited an equally strong response. The question was whether the creation of the CIS was in keeping with the Constitution. The ultraconservatives were unified with votes ranging between -46 to -69 against the Yelstin state-building reforms. The third vote was the proposed amendment to protect the ruble from the aggression of the dollar. The scale was devised to indicate the distribution of factions on a theoretical patriotism to Westernism axis (-100 being total patriotism and + 100 as an indicator for liberalism or westernism). Strong divisions within Russian Unity manifested on this vote. The ultra-nationalist Fatherland not surprising registered a -.43 in opposition. The Communists of Russia were more tentative in their response with a -.36. The Agarians and Rossiya moved toward the center with a -2 and 5



respectively. In terms of their influence at the Congress, the extreme anti-reform bloc was able to generate stronger support for the no-confidence vote rather than the other measures regarding the course of reforms per se.

## **7. The Coalition for Reform's Influence and Coalition Potential**

The liberal support base for the government and president came from Democratic Russia and the Radical Democrats. Their overall ideological scores reflect a positioning between +87 to +88. Sobyenin's analysis encompassing all votes taken the Sixth Congress likewise shows a similar range between +83 to +89. Examining their ideological scores on the three bell weather votes more or less confirms this pattern. In other words, the democrats appears to be more cohesive with less variance among the constituent factions. In contrast to the popular view of a highly fragmented democratic core, the votes generally show a strong orientation to vote pro-reform and pro-president.

The Nonparty Deputies -- with scores of 68 on the confidence measure, 79 on the ruble, and 77 -- appear as an addition source of support given their close proximity to the radical democrats. In addition, there appears to be a strong coalition potential between the radical reform and moderate reform coalition. Despite the crisis votes and divisions that characterized the opening of the Congress, the high levels of support for reform indicate that the liberals were still able to influence the course of legislation.

## **8. The Moderate and Conservative Centrists Influence and Coalition Potential**

Democratic Center's bell-weather scores indicate a potentially stronger alliance potential with the liberal democrats, than the constructive forces or Russian Unity. Despite the centrists' protest vote, the data suggests that there was a coincidence of interests on specific issues. For instance, Left Center's score on the no-confidence vote was 71 against and Free Russia was 61. In comparison, the Radical Democrats score was 86 and Democratic Russia registered a 74.

Likewise, there is a synergy between the liberals and moderate centrists on the vote on the ruble. The moderate centrists had scores ranging from 94 to 64.

On the issue of state-building, Left Center (76) also could be grouped with the Radical Democrats (79) and Democratic Russia (91). The Worker's Union (64) also supported Yeltsin's state-building reforms. Free Russia, which was moderately nationalistic, dropped to a less certain 52. The centrists or the liberals could look to unaffiliated non-party deputies faction for added leverage. By the Sixth Congress, the conservative centrists (the Industrial Union, Change, and Sovereignty and Equality) were closer to the center, but equidistant from the Coalition for Reform and Russian Unity. On the no-confidence, the Industrial Union faction supported the measure with a score of -1. They showed moderate support for economic reform with their votes on the ruble (46), and (-3) on state building. Sovereignty and Equality were left of center with scores of 13 on the confidence measure, 36 on the ruble, and 10 on state-building.

## **9. Summary: Sixth Congress of People's Deputies**

Beginning with the Sixth Congress of People's Deputies, the potential for radical privatization reforms appears to decrease due to changing partisan conditions. The emergence of multiple policy dimensions broke up previous bipolar voting blocs. The four-bloc configuration that emerged, along with the slight shift toward the conservative side of the political spectrum, opened up the possibility of replacing the previous moderate centripetal competition with extremist centrifugal pressures.

The evidence confirms that there was a strong potential for the emergence of crisis coalitions set into motion by cross-cutting cleavages on economic reform, governmental performance, and presidential powers. The most significant struck a blow at the radical reformers

and their shock therapy initiatives through the vote that united Russian Unity, conservative and moderate centrists, and liberals. Once deputies realized the dangers that had emerged toward reversing the transition, the crisis pendulum swung the other direction uniting centrists of all shades with the liberals to reconfirm parliament's support of economic reform.

After the initial crises were settled, (as predicted by policy distance) temporary coalitions formed on specific issues when their interests coincided. Russian Unity's steadfast opposition to the transition isolated it as a coalition partner, except as part of a crisis coalition. Without a major realignment of deputies, the votes on economic reform and confidence in the government were exceptional. The deputies' ideological positions remained relatively stable.

#### **D. The Second Reading: Passage of the 1992 State Privatization Program**

Following the crisis Sixth Congress, the second reading of the government's privatization bill in the Supreme Soviet began on May 29, 1992. Final legislative approval of the bill required a majority of the Supreme Soviet or approximately 120 votes.<sup>56</sup> The approval process for the privatization draft law began in the lower house Council of Soviets; once approved the bill then received the endorsement of the upper house the Council of Nationalities. The law passed with a significant majority.

##### **1. The Partisan Pattern of the Supreme Soviet May-June 1992**

In lieu of a parliamentary majority, the government again had to construct an enactment majority. To achieve an overwhelming majority, coalition-building required the continued isolation of Russian Unity, the full support of the Coalition of Reform and Democratic Center, and some defections from the Constructive Forces. The political competition for the liberals and ultra-conservatives again entailed winning votes from the center. The government's coalition strategy was similar to that of the first reading.

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<sup>56</sup>The 120 vote majority is premised on the two houses meeting in joint session.

However, partisan conditions at the sixth congress carried over to the Supreme Soviet. Although, the government could enact the bill with an issue-specific coalition, Chubais also had to consider the possible emergence of crisis alliances. Another unknown concerned the effects of instability. At the sixth congress, bloc voting predominated. Chubais still could not anticipate whether factions within blocs who differed on their preferred method and distributive formulas might break away from their voting blocs; past patterns of voting appeared to be an unreliable predictor for the second reading of the state program.

## **2. The Distribution of Voting Weights and Distances Among Blocs**

At the end of May 1992, the distribution of partisan forces in the Supreme Soviet had roughly equal voting strength. In the Supreme Soviet, the Coalition for Reform had approximately 50 deputies. At the other end of the spectrum, Russian Unity had approximately 60 deputies. The two centrists factions -- Creative Strength had 50 deputies, and Democratic Center had 80.<sup>57</sup>

In addition, the polarization score for the Supreme Soviet as a whole was moderate. The Supreme Soviet deputies had an average score of 3.83 (1 is radical, liberal and 9 is conservative).<sup>58</sup> As Hough notes, the executive and legislative branches still had relatively similar preferences regarding economic reform.

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<sup>57</sup> David Lane and Cameron Ross, "From Soviet Government to Presidential Rule" in David Lane ed. *Russia in Transition: Politics, Privatization and Inequality* (London and New York: Longman, 1995) p.8

<sup>58</sup> Jerry F. Hough, "Legislative Structure and Party Development" in Jeffery W. Hahn ed. *Democratization in Russia: The Development of Legislative Institutions* (Armonk, N.Y. and London, England: M.E. Sharpe, 1996) p. 100.

**Table No. 4.4 Ideological Scores of Supreme Soviet Blocs June 1992**

<b>Bloc</b>	<b>Number of Deputies</b>	<b>Ideological Ratings</b>
<b>Coalition for Reform</b>	50	80
<b>Democratic Center</b>	80	66
<b>Creative Strength</b>	50	-14
<b>Russian Unity</b>	60	-67

Source: Alexander Sobyenin, "Political Cleavages Among Russian Deputies" in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994). p. 215.

Sobyenin's (1994) ideological scores formulated for the Supreme Soviet indicate several possible coalition configurations were most likely. The Coalition for Reform could align with the Democratic Center totaling a possible 140 votes as a legislative enactment majority. However, Democratic Center could turn to the Constructive Forces if the two had a strong enough incentive to pose an alternative to the neoliberal plan. The Sobyenin scores though indicate significant differences in policy distance. Returning to Kitschelt's coalition types, if policy distance is crucial for coalitions to form, then the only possibility would have been a crisis coalition. Given recent events at the Sixth Congress, a crisis coalition formed to challenge the government's program was not out of the range of possibility.

Coming out the Sixth Congress, the Constructive Forces were undoubtedly strengthened. As a bloc, their votes at the Sixth Congress were pivotal to reversing the condemnation of the president's economic reform program. In particular, the Industrial Union faction had expanded its influence. The industrialists had attained four cabinet positions in the government through a deal brokered with the president. Unlike the first reading at the end of March, they had increased their chances to defeat the program. As a swing vote with fifty votes, they had negotiating leverage with the liberals, the moderate centrists, and Russian Unity.

### **3. Coalition Potential and Policy Distance on Economic Reform**

To examine policy distance in more detail, I will use survey evidence developed by Gleisner et al. (1995). Their research focuses on the issues of economic reform, the privatization of land, and the privatization of state-owned enterprises. Table 4.4 summarizes deputy positions on both economic and political reform. Coalition for Reform divided in their support of the government's economic reform program; 49 percent supported the supported neoliberal reforms, but sought a more consistent or radical approach. Other liberals (48 percent), however, sought major adjustments.

The Constructive Forces (67 percent) and Democratic Center (83 percent) also supported the program, but with serious adjustments. Russian Unity, like the Coalition for Reform was divided; 49 percent rejected the program on principle. Another 36 percent of Russian Unity's deputies supported the program if the reformers incorporated major adjustments linked to liberalization and stabilization (monetary and fiscal policy). The centrists and conservative supporters of reform wanted a gradual version with continued subsidies to enterprises and social welfare provisions. The differences between the neoliberal and gradualist versions would have been difficult to bridge.

**Table No. 4.4 Survey of Deputy Preferences on Economic Reform and Privatization**

<b>Voting Blocs</b>								
<b>Sixth CPD</b>	<b>Privatization</b>	<b>Land</b>			<b>Privatization</b>	<b>State Enterprises</b>		
<b>April 1992</b>	Support	Support	Do not		Free	Sales	Sales	Sales
<b>Attitudes</b>	Immediate	With	Support		Assignment	to	by	by
	Privatization	Restrictions			to Work	Work	Shares	Auction
	of Land				Collectives	Collectives		
	%	%	%		%	%	%	%
<b>Russian Unity</b>	11	61	27		47	16	36	1
<b>Constructive Forces</b>	55	39	4		32	22	43	2
<b>Democratic Center</b>								
<b>Coalition Reform</b>	69	28	1		15	21	57	7
		<b>Economic</b>	<b>Reform</b>					
	Right	Right	Wrong	Wrong	Difficult to			
	but requires	but needs	adjustments	in	Say			
	consistency	serious	make	principle				
		adjustment	acceptable					
	%	%	%	%	%			
<b>Russian Unity</b>	1.8	36.8	10.5	49.1	1.8			
<b>Constructive Forces</b>	12.5	66.7	2.1	14.6	4.2			
<b>Democratic Center</b>	11.9	83.1	1.6	3.4	0			
<b>Coalition Reform</b>	48.9	46.7	0	2.2	2.2			

**Source:** Jeffrey Gleisner, Leonti Byzov, Nikolai Birykov, and Viktor Sergeyev, "Parliamentary Control in Russia" *Journal of Contemporary History* 1995 Vol. 31:3 pp. 454-455.

In terms of the privatization of state enterprises, most Russian Unity deputies (63 percent) preferred the return of property either free or through lease buyouts to the work collective. Some of the Constructive Forces (32 percent) also indicated a preference for free return of state enterprises to the work collective. Most of the potential supporters of the government's privatization program (Coalition for Reform and the Democratic Center, as well as the Constructive Forces) preferred sales by shares. Sales by shares did not refer to placing

enterprise shares on the stock market. Instead this method entailed sales to enterprise employees controlling blocks of preferential shares. Only 10 percent of these deputies supported Chubais's proposed emphasis on auctions.

From the above discussion, what coalition formations can we expect to see based on policy distance regarding economic reforms and the privatization of state enterprises? Democratic Center and Coalition for Reform would be likely support the program. But they would require from the government compromise on privatization methods and distributive issues. The possibility also increased for a coalition between Democratic Center, the Constructive Forces, and Russian Unity deputies who sought shares sales and preferential shares for employees. Leaving out the Coalition for Reform deputies, this alignment could effectively present an legislative alternative to the Chubais program. The government's program would have been overwhelmingly defeated and replaced by a reversionary position. In short, a support coalition still existed for the passage of privatization legislative. Nonetheless, passage would require a negotiated bargain between the all the Supreme Soviet deputies with an interest in privatizing state-enterprises and the government. Albeit these predictions, what actually happened?

#### **4. Partisan Effects, Coalition Strategy, and The Second Reading**

The passage of the draft law on privatization at first appeared to be straight forward. The bill was submitted for second reading to the lower chamber of the Supreme Soviet where the final stage of legislative approval began on May 29, 1992. Privatization Minister Anatolii Chubais' task was to oversee its passage. As noted in the previous chapter, Chubais had sought an institutional solution whereby the Chairman would use his agenda-setting powers to call for an immediate up and down vote on the entire package.<sup>59</sup> Chubais's expectations presumably

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<sup>59</sup>Anatoly, Chubais, "Vtorii Rynd, verknogo sobet" *Privatizatsia Russii* (Moskva: Vagriiys, 1999) p.89



were based on the belief that most outstanding issues had been settled during the first reading. Chubais also apparently believed that there was a stronger potential for support for the bill rather than opposition. As Chubais notes, the most important as potential opposition were the “distribution of Khasbulatov’s political forces.” Khasbulatov’s “political forces” ranged from ultra-conservative deputies in Russian Unity to the center-right Constructive Forces.<sup>60</sup>

According to Chubais, during the first reading opposition came from the communist factions but also reformers with objections to the government’s program. The deputy factions representing the workers collective (the centrist Constructive Forces) were not a factor.<sup>61</sup> The second reading entailed the coalescence of opposition from an alliance between the Trade Union of Russia faction and Industrial Union.<sup>62</sup> The opposition united behind the banner of the rights of the work collective.

As expected, the political center played an important role. However, the alliance between labor and capital was a surprise. The two centrist factions also found common cause with the communists. Both insisted that the work collectives individually should determine their future form of ownership. The government found themselves confronted with “a coalition of communists, centrists, workers and enterprise managers.”<sup>63</sup>

According to Chubais, the bill first was challenged by the Workers Union. Labor argued for leasing with free redemption of shares. Labor’s proposal favored the work collective as the sole beneficiaries of large-scale privatization. The leasing alternative was a revival of the formulation used during the Gorbachev era. This challenge was important because it precipitated the postponement of the vote for a week. In the interim, Chubais’s task was breaking up the centrist-communist coalition.

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<sup>60</sup>Ibid.p.89

<sup>61</sup>Ibid. pp.89-90.

<sup>62</sup>Ibid. p.90

<sup>63</sup> Anatoly, Chubais, “Vtorii Rynd, verknogo sobet” *Privatizatsia Russii* (Moscv: Vagriiys, 1999), p. 90

Chubais argues that he used a strategy of cooptation and attempted to find a bargain with the Worker's Union. However, his compromise solution with the Worker's Union was only temporary. When the Supreme Soviet reconvened, so did parliamentary maneuvers on the part of the opposition. Chubais had not counted on the divisions that characterized the centrist factions. A compromise that satisfied one flank (labor) was not sufficient to coopt the support of the other (the enterprise managers). Centrist deputies ranging from moderates to conservatives pulled together a crisis coalition that united the blocks of Creative Strength (the enterprise directors) and Russian Unity (the communist and nationalist extreme factions).<sup>64</sup>

In response, Chubais's options were limited to a defensive strategy. The challenge entailed finding common ground among the moderate and conservative centrists. At the same time, the strategy had to satisfy the liberal factions. Chubais was able to turn the vote using persuasion and discrediting Russian Unity deputies (their alternative proposal was premised on loose links to an advisor at the World Bank). Chubais alludes to Option Two as the compromise outcome and the cost of breaking up the centrist-communist alliance.<sup>65</sup> The kind of change became the tradeoff for massive property divestment. As previously noted, Option Two was closely linked to insider privatization; it permitted the work collective to purchase 51 percent or majority control of their enterprise

On the final vote, the deputies were allowed to vote either for government's revised program or the amended version authored by Russian Unity. The government proposal for mass privatization won with 130 votes (60 percent of the deputies). The communists won only 15 to 20 percent of the vote against the bill.<sup>66</sup> The enactment majority outcome was made possible by

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<sup>64</sup> Ibid, pp.91-93

<sup>65</sup> Maxim Boycko, Andre Shleifer, and Robert Vishny, *Privatizing Russia* (Cambridge: MIT Press, 1995).

<sup>66</sup> Anatoly, Chubais, "Vtorii Rynd, verknogo sobet" *Privatizatsia Russii* (Moscow, Vagriys, 1999) pp.94-96.

a coalition strategy of isolating the most conservative wing of Russia Unity and using side-payments to win over the center.

While this outcome has been judged as a victory for the various stakeholders, a closer look shows that each side was willing to split the difference. Option Two suited the interests of enterprise directors and trade unions; these groups now had the opportunity to attempt to exclude outside owners. Changes to the bill through amendments included the methodology of privatization, the valuation of property, and the delimitation of powers between the state property committees and state property funds. The methodology also was modified. In addition to competitive bidding and auctions, provisions were added that allowed for the purchase of the enterprise by the collective.

#### **E. Conservative Realignment: Summer through December 1992**

This section examines the third set of partisan conditions; the time frame covers Russian politics between July 1992 through December 1993. Specifically, I look at the conservative realignment that began at the Sixth Congress of Deputies. This realignment further developed during the summer of 1992 and consolidated in December at the Seventh Congress. Below, I address the underlying conditions related to the conservative shift in deputies' orientation. I then link the partisan conditions to the likelihood of further legislating radical privatization. These events marked Russia's evolution toward Sartori's polarized pluralism. Tentatively, the sources of polarized pluralism included (1) extreme intra-party instability, (2) centrist realignment, and (3) pattern of centrifugal competition. The section concludes with the policy implications engendered by the end of liberal inter-party cooperation and the conservative dominance of the Supreme Soviet and Congress of People's Deputies.

## 1. Factional and Bloc Instability

Beginning in June 1992, intra-party instability included the transformation of old factions into new ones (Industrial Union to Renewal), and the formation of new factions (Motherland, Civil Society and Consensus for the Sake of Progress). As noted above, all the factions lost members between October 1991 (the Fifth Congress) and February 1993 (post Seventh Congress). The most dramatic were the democrats with close to 200 deputies between 1990 and 1993.

The number of factions stayed the same with approximately 14. The blocs with the most success as organizers of deputies were the Coalition for Reform and Russian Unity. Among the centrists, Creative Strength reorganized as the Constructive Forces. Democratic Center lost the Worker's Union to the conservative centrists. The EFN, if one discounts bloc allegiances, increased to 12.6 well within the range of Sartori's polarized pluralism.

Both the centrist and the liberal blocs attempted to reinforce their positions by attempting to form new coalitions with an organizational basis. Albeit there were repeated attempts, the liberals failed to create a sufficiently stable source of support for reform. Following the Fifth Congress, the Coalition for Reform was the first try to create a party-like support base; the Coalition persisted albeit with defections. Just prior to the Sixth Congress of People's Deputies, the leadership of Democratic Russia (Ponomarev), the Russian Union of Industrialists and Entrepreneurs (Arkady Volsky), the Democratic Party of Russia (Leonid Travkin) and the Republic Party also attempted to form a "party of power" or a government party.<sup>67</sup>

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<sup>67</sup> Tatyana Malkina and Vladimir Todres "Democrats: It Seems a Party of Power has been Born," *Nezavisimaya gazeta* April 7, 1992 p. 2.

In April 1992, liberal and moderate centrist deputies attempted to formally organize a group known as Reform.<sup>68</sup> The factions this time included Democratic Russia, the Radical Democrats, Left-Center, Free Russia, the Worker's Union, and the Non-Party Deputies among others. The aim was to build a political center in support of economic and political reform. In September 1992, the Coalition for Reform and Democratic Center formed a new faction known as Consensus for the Sake of Progress. Consensus became part of the Coalition for Reform, but the bloc's voting weight was not strengthened.

The centrists also attempted to strengthen their position; during the summer of 1992 they formed a new coalition called Civic Union (Grazdanskii Soiuz). The alliance included the Industrial Union, the moderate faction Smena, Free Russia, and the extra-parliamentary Democratic Party of Russia.<sup>69</sup> Civic Union's strength was premised on its organization at the local level and large numbers of union members. In parliament, Civic Union hoped to leverage its influence with the joint votes of the participating factions. However, Civic Union also represented a failed attempt to consolidate the center; in part the leadership could not overcome

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<sup>68</sup> Coalition-building began in February 1992 with a declaration of seven prominent democratic and centrist factions - Demokkraticheskaya rossiya (Democratic Russia) Ob edinennay frak fraksiya sotsial-demokratov (the United Faction of Social Democrats and Republicans), Levit sentr (Left-Center), Radikal'nye demokraty (Radical Democrats), Rossiikii rabochii soyus (The Russian Union Worker's Party), Bespartiinye deputaty (Non-party Deputies), and Svobodinaya rossiya (Free Russia).

<sup>69</sup> See Anna Poretskaya "Poll: Civic Alliance -- Different Views, But the Same Interests" *Nezavisima Gazeta* July 22, p. 2 cited in *The Current Digest of the Post-Soviet Press* p.8 vol XLIV, No. 29, 1992. p.8. The article outlines the findings of a July 1992 survey of the members of the Civic Union showed that it was a loose alliance of opportunity, rather than a cohesive movement built around a unified ideological vision. Travkin's Democratic Party of Russia envisioned its future evolution along the lines of conservative parties in western Europe, such as the Christian Democratic Union/Christian Social Union in German or Great Britain's Conservative party (30 percent) Another 23 percent saw the party developing along the lines of the democratic and republican parties in the United States. Rutskoi's Free Russia People's Party envisioned the party's future in line with the parties that belonged to the Socialist International (37 percent). Divisions along these fault lines were echoed in vastly different attitudes toward private property. The aspiring conservative DPR preferred rapid sales of property to all would-be buyers, including foreigners, or at the very least, to sell shares in an enterprise entirely to its employees (27 percent). More than half of the respondents of Free Russia considered it necessary to create mainly closed-subscription joint stock companies, and 30 percent polled favored transferring an enterprises property to the labor collective free of charge.

continuing fragmentation within the Democratic Center and Constructive Forces blocs. In addition, their failure reflects the absence of a strong liberal anchor that might have precluded the conservative realignment.

## **2. Intra-Party Instability and Polarization**

The liberals and centrists had the greatest change in membership and political orientation. Several studies report that 188 deputies defected from pro-reform factions to anti-reform factions between Spring and December.<sup>70</sup> Pro-reformers had ratings higher than 33; while opposition deputies had ratings lower than -33.<sup>71</sup> Consequently, the president and the reformers lost their capacity to legislate with majorities. For instance, at the Third Congress, the president's support reached a high point; 45 percent of the deputies supported the president and the course of reforms. The level of support dropped modestly at the Sixth Congress to 40 percent. However, enactment majorities were still possible as long as the reformers could win over centrists and communists. By the Seventh Congress, support for reform dropped precipitously to 26 percent. At the eighth congress in spring 1993, the president only had 23 percent support of the deputies. Conservatives also were only 13 deputies short of having two-thirds super majorities to pass constitutional amendments and to impeach the president.<sup>72</sup>

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<sup>70</sup> See David Lane and Cameron Ross, "The Changing Composition and Structure of Political Elites," in *Russia in Transition Politics, Privatization, and Inequality*, ed. David Lane (London and New York: Longman, 1995). Pp.52-75; Alexander Sobyenin, "Political Cleavages Among Russian Deputies" in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) p. 208; Thomas F. Remington, Stephen S. Smith, D. Roderick Kiewiet, and Moshe Haspel, "Transitional Institutions and Parliamentary Alignments in Russia: 1990-1993," in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) pp. 159 -180.

<sup>71</sup> Alexander Sobyenin, "Political Cleavages Among Russian Deputies" in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) p. 208.

<sup>72</sup> Ibid.

The centrists had different reasons for embracing conservative positions. Moderate Centrists from Democratic shifted to the right because they were lured by the patronage powers of the Chairman. Others moved to the right in response to the continuing economic crisis. As a result of their dissatisfaction with the effects of shock therapy, Civic Union deputies also sought to force the president to move to the center in order to secure legislative support for his policies. Conservative centrists had similar motives. Civic Union now was led by the Industrial Union, who also sought to stack the government with their own ministers from the ranks of the military-industrial complex.

As table 4.5 below shows centrist factions moving from support to opposition for reforms included Free Russia Motherland, Workers' Union and Smena. Many deputies began as liberals and moderates. The policy distance entailed shifts ranging between over 100 to 40 points to conservative positions. For instance, Free Russia began with an ideological score of +70 at the third congress, and dropped to +6 by the sixth congress; by the seventh and eighth congresses they moved to right of center with scores of -21 and -12 respectively. Worker's Union began with +58 at the third congress; these deputies moved to a solidly anti-reform position of -51 by the seventh congress. Smena that was moderately pro-reform also had transformed to an anti-reform position of - 42. Industrial Union at the third congress was weakly reformist (-26); their score by the seventh congress was -65.

**Table 4.5 Support For and Opposition To Reform**

Level of Support	No sign	Num ber of	Third	Sixth	Seventh	Eighth	N ineth
Level of O pposition	M inus sign	Deputies	C ongress	C ongress	C ongress	C ongress	C ongress
<b>C oalition for Reform</b>							
Dem ocratic Russia		48	96	83	84	86	84
Radical Dem ocrats		50	94	89	89	91	90
Consensus for		53	85	78	76	71	78
the Sake of Progress							
Left-Center Cooperation		61	67	45	22	10	17
<b>Dem ocratic Centre</b>							
Free Russia		54	70	32	6	-21	-12
M otherland		55	56	17	-11	-45	-30
W orkers Union		52	39	0	-21	-51	-34
Change New Politics (Sm ena)		52	28	-30	-45	-60	-42
<b>C reative Strength</b>							
Industrial Union		51	-26	-42	-48	-65	-64
Sovereignty and Equality		49	-36	-29	-40	-64	-62
<b>Russian Unity</b>							
Com m unists of Russia		67	-91	-89	-88	-95	-93
Fatherland (O tchizna)		51	-78	-61	-69	-85	-85
Rossia		54	-53	-77	-78	-84	-86
A grarian Union		129	-69	-72	-73	-89	-87
Total Deputies		826	5	-11	-21	-35	-30
Deputies Outside Factions		207	2	-10	-21	-43	-36
Congress as a W hole		1033	4	-11	-21	-37	-32
Suprem e Soviet		247	12	-10	-23	-44	-36

Source: Alexander Sobyenin, "Political Cleavages Among Russian Deputies" in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) p.201.

### 3. Polarization and Centrifugal Competition

The realignment reasonably predicts the replacement of the previous pattern of centripetal competition with centrifugal spiral to the ultra-conservative end of the political spectrum. Centrifugal competition usually is characterized by defections from the center. Instead of just defections, entire factions and blocs shifted position. The competition under this configuration also entailed appeals to the extremes to create coalitions and enactment majorities.



Democratic Center and the Constructive Forces moved closer toward Russian Unity. But these two blocs also competed with Russian Unity for predominance of the parliament. Thus, it was not surprising to find these groups engaged in competitive bidding in the Supreme Soviet.

In the sequence of events, as the centrists moved toward conservative positions, a major attempt to unravel the State Privatization Program for 1992 followed. During the fall session of the Supreme Soviet, the industrials and the ultra-conservatives each sought to rewrite the privatization bill. Their attempt to construct legislative majorities was characterized by each bloc proposing larger and larger numbers of preferential shares for the work collective. By December, competitive bidding between the two groups and led by the Chairman of the Supreme Soviet resulted in a proposal that increased the 51 percent of preferential shares in Option Two to 90 percent. With the State Program already legislated, Chubais refused to agree to further compromises on the distributive formula.<sup>73</sup>

Extremist initiatives were proposed as legislation at the Seventh Congress of Peoples' Deputies. According to Remington et al.(1994) competition around left-right economic reform dimension resurfaced; their findings indicated that the constitutional struggle between the president and parliament were highly related to this factor.<sup>74</sup> As noted by these authors, the vote

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<sup>73</sup> In opposition to GKI's proposals, Ruslan Khasbulatov, the Speaker of the Russian Parliament called for dramatically increasing the shares to be given to workers for free. Preferring employee collective ownership over private ownership of large state enterprises, he envisioned collective ownership as a third way alternative for Russia. Since it melded together both socialist and capitalist approaches. Khasbulatov and other leading conservative members in the parliament like Yuri Gekht served as valuable allies of state and non-state groups such as Arkadii Volsky's Russian Union of Industrialists and Entrepreneurs, which hoped to alter the distribution of benefits within large-scale privatization. In addition, throughout the privatization process, the leader of RUIE, Arkady Volsky actively engaged in uniting the conservative factions in the Supreme Soviet. He collaborated with the Chairman of the Supreme Soviet and Yurii Gekht (the leader of the Industrial Union Promyshlennyyi Soiuz), a large conservative faction in the Supreme Soviet) in order to obtain more concessions. Volsky, first through the RSPP and then the Civic Union, effectively lobbied for changes in the distributive terms that would favor enterprise managers and to a lesser extent rank and file workers. With Civic Union now as an instrument to attain their preferred policy, the centrists called for destatization rather than privatization and all decision making to be decentralized down to the level of the enterprise. In other words, the Civic Union had found common ground with Russian Unity and if it could vote cohesively could defeat Chubais' program.

<sup>74</sup> Thomas F. Remington, Stephen S. Smith, D. Roderick Kiewiet, and Moshe Haspel, "Transitional

president and parliament were highly related to this factor.<sup>74</sup> As noted by these authors, the vote loading most highly on this factor was the motion to grant the Supreme Soviet the right to confirm cabinet positions, the impeachment of the president, the removal of his powers,

#### **4. Interparty Cooperation: Coalition Types and Policy Implications**

The realignment and polarized pluralism predicts the sharply decreased potential for liberal-centrist inter-party cooperation, especially using the staple of issue-specific coalitions. The various shades of reformers still could submerge their differences and unite through crisis coalitions. Crisis coalitions formed when either the reforms could be jettisoned entirely or when the president faced threats to his survival. For instance, during the opening session of the fall 1992 Supreme Soviet, the liberals and centrists once again united to approve Yegor Gaidar's report on the progress of economic reform.

Alternatively, the realignment predicted that the conservatives could form issue-specific coalitions and perhaps stable ones. In July 1992 the Civic Union rejected an alliance with the ultra-conservatives. However, the new centrist alliance also refused to support the government. Civic Union mobilized around the discontent in the parliament with the 1992 privatization law and the country's economic crisis. Their strategy was to leverage discontent on these issues to force Yelstin to grant them more cabinet positions in the government. They also sought to force the president to adopt an alternative program of economic reform. To strengthen their bargaining position with the president, Civic Union's leadership explored an coalition with Russian Unity

Previously, a communist-conservative coalition was not feasible. Not only was the ideological distance too great, but many centrists and even the industrialists were fundamentally

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<sup>74</sup> Thomas F. Remington, Stephen S. Smith, D. Roderick Kiewiet, and Moshe Haspel, "Transitional Institutions and Parliamentary Alignments in Russia: 1990-1993," in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) p.175.

anti-communist. The new found conservative orientation was premised on their joint interest in removing the president, reducing the presidency to a ceremonial role, and regaining control of the industrial enterprises. Therefore, temporary issue by issue alliances if not a stable coalition for the future were evidenced on numerous votes during the Seventh Congress and thereafter, until the constitutional crisis of 1993. Therefore, the realignment favored a unity of purpose among conservatives posed against the liberal position of the privatizers. To protect his position and to continue to influence parliament the president moved to the center. Divided government and zero-sum politics between the executive and legislative branches became the ongoing dynamic until the end of 1993.

Against this background, the further legislation of privatization through decree appears reasonable. Privatization legislation was withdrawn from legislative consideration at the Seventh Congress. The State Program for 1993 entailed few compromises to the conservatives; the central feature was the voucher program and auctions to promote Yeltsin's People's capitalism. Table 4.6 indicates the percentage change of possible support.<sup>75</sup> The only guaranteed votes came from the strong and moderate reformers (Coalition for Reform) with only 26 percent of the vote. If the Coalition could have drawn in the weak reform and weak opposition center (Left Center, Free Russia, and Smena), they still fell short of a majority with only 47 percent against the stronger opposition that had 53 percent. The president legislated the 1993 and 1994 State Privatization Program by decree.

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<sup>75</sup> Strong reformist scores ranged from +100 to +67. The deputies moderately supporting reforms, ranged from +66 to +34. The centrists weakly supporting reform ranged from +33 to 1. Weak opposition to reform received scores of 0 to -33. Moderate opposition to reform ranged from -34 to -66, while strong opposition ranged from -66 to -100. The Sobyenin group developed the score on the basis of 249 roll call votes.

**Table No. 4.6 Number of Deputies by Support and Opposition to Reform**

Political Group	<u>SR</u>	<u>MR</u>	<u>WR</u>	<u>WO</u>	<u>MO</u>	<u>FO</u>
Number of Deputies	193	80	90	120	188	369
Percent	18	8	9	12	18	35
Percent by Each group	26		21		53	

Source: Alexander Sobyenin, "Political Cleavages Among Russian Deputies" in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) p. 212.

## **F. Conclusion and Summary Findings**

This chapter posits a partisan explanation as an alternative to the constitutional powers distribution thesis. The argument attributing policy change to partisan conditions is structured in two parts. First, the choice of electoral rules are the independent variable; different electoral system are expected to influence policy outcomes through future party system development. Second, I then drew upon Herbert Kitschelt's (1998) recent theorizing and research that relates party system characteristics to interparty-cooperation and coalition building necessary to radically change property regimes.

I began with the thesis that the greater parties are united in purpose (less parties, close in policy space with fewer policy divisions, and stable in membership and identify), the chances increase to legislate radical property change and equitable privatization policies. Since electoral rules can be arrayed along a majoritarian to consensual spectrum, the chances for optimum collective decisions increase (1) when the chief executive enjoys a majority partisan advantage in parliament, or (2) when conditions were favorable for inter-party cooperation in the form of stable enactment coalitions.

To operationalize the purpose variable, I used the findings regarding three characteristics of party development to create a comparative index. Although the Russian parliamentary setting was fluid, I chose the time-frame during which mass privatization was legislated, to construct my index. From December 1991 through June 1992, one could argue that the parliamentary setting was characterized by moderate fragmentation, intra-party instability, and polarization; Russia's index score was 6.5 out of a possible 12.<sup>76</sup> To explain Russia's capacity for legislating privatization policy, it could be said that moderate polarization and fragmentation permitted the formation of issue-specific coalitions.

Moderate fragmentation appeared to be a product of Russia's system of parliamentary voting blocs. The four voting blocs reflected specific programmatic preferences regarding economic reform and privatization policy. Up to the second reading of the State Program, Chubais could count on a coalition of liberals, left-centrists, some right-right centrists and the independent centrists. After June 1992, fragmentation reappeared especially within the liberal Coalition for Reform.

The evidence regarding the privatization debates identified one source of continuing fragmentation as multiple political entrepreneurs advanced their own versions of privatization. The ideological nature of the contest was divisive in context of weak party organization even with the voting bloc organizational scheme. The repeated but failed efforts to create the beginnings of a liberal-based coalition also stemmed from the lack of strong leadership on the part of the president. Previous research has shown that Yeltsin's decision to stand above party, his lack of interest in developing his own support base, and his failure to conduct elections

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<sup>76</sup>For each category, I used a scale of 1 to 4 depending on the effective number of parties for fragmentation, the conflict cleavage indicator as well as number of issue dimensions, and the type of competition for polarization, and the persistence of instability for intra-party stability.

following transition undoubtedly also contributed to the inability of the liberals to coalesce than fragmentation per se.

Polarization also appears in this study as a crucial determinant of inter-party cooperation. Since, fragmentation remained a constant over the course of legislating mass privatization, polarization proved to be an important guide to coalition formation. In examining “the Basic Provisions”, the first reading of the state program, the approval of the governments economic reform program and the second reading of the state program, policy distance as an indicator of polarization on specific issues proved fairly accurate in predicting the outcomes over time.

First, following the fifth congress in October 1991, the formation of the four voting blocs broke up the previous bipolar pattern of voting in the parliament. Policy distance between the four blocs as predicted by the cleavage conflict indicator appeared moderate at this time. Up to the Sixth Congress the following April, the competition among the party-like blocs assumed a centripetal structure. The liberal and conservative blocs at the poles moderated their positions as they competed for votes in the center. As shown in the vote on the first reading of the state program for 1992, Chubais could rely on a centrist-liberal coalition formula for passage. Russian Unity, the irreconcilable opposition to reform, was unlikely to find common ground with either the Coalition for Reform and Democratic Center, or the more conservative industrialists who led Creative Strength.

Despite Chubais’s ability to form coalitions using a centrist-liberal formula, the policy distance indicator predicted that a natural constituency did not exist for his radical liberal privatization program. The liberals and centrists held different positions regarding privatization methods and distributive formulas; the government also held a more radical position than the liberals. To form a legislative majority based on the median voter in parliament, the government

first had to rely on case-by-case coalitions and to hold them together had to bridge these distances through compromise solutions.

Second, even these coalition-building options became more difficult once the competition in parliament became shaped by multiple issue dimensions. Equally important, the new issue dimensions were linked to the institutional determinants of privatization. Although these issues bundled into one issue dimension, three were crucial -- the president's exercise of his decree and appointment powers, the effectiveness of the government in conducting economic reform, and consequences of radical reforms (conducted by decree) on the social welfare of the Russian population. As these issues prompted threats from parliament regarding the president's tenure, they constrained his ability to legislate privatization by decree. The multiple issue space also marked the beginning of the transformation of the parliamentary setting. As economic reform and issues divides related to the Russian president cross-cut each other, crisis coalitions emerged at the April 1992 Sixth Congress of People's Deputies.

Third, the crisis coalitions at the Sixth Congress reflected the increasing policy distance among the blocs. The centrists and liberal coalitions divided upon distributive issues related to privatization. The left-centrists moved to the right in pursuit of labor's interests. The right-centrists seeking to secure greater control over their enterprises through majority shares moved toward the more extreme right end of the spectrum. The conservatives remained constant in their ideological positioning; some outright opposed privatization while others wanted the lease buyout option that would return the enterprises to the labor collective. By the second reading, the potential for inter-party cooperation benefiting the government appears to have sharply decreased.

In the previous chapter, I argued that parliamentary procedures in part were a key determinant of the privatization compromise bargained in the Supreme Soviet. The Chairman's decision to circulate the proposal in further discussion in committee and open debate rather than using a take it or leave it vote, contributed to the negotiate final form of the law. Once the proposal was subjected to parliamentary debate, the parliamentary setting as well as the Supreme Soviet's rules placed the government in a defensive position.

The parliamentary setting of increased polarization while deputy alliances were fluid also predicted that Chubais's former legislative strategy was unlikely to deliver a legislative majority. Previously, Chubais relied upon presenting the most radical position, then engaging in low-cost bargains to unite the liberals and centrists. By the second reading, the shifts in policy distance were insufficient to prevent the legislation of privatization. However, these changes in alignment predicted that high-cost bargaining would be necessary to attain a majority.

In sum, the partisan explanation for the final form of the 1992 privatization law stemmed from increased polarization based upon presidential issues as the primary mover. The 51 percent option that gave rise to insider privatization came as a result of decreased inter-party cooperation that made the building of issue-specific coalitions a high cost proposition. Once the liberals and centrists were divided by their respective divisions toward new dimensions such as presidential power, the potential increased for new coalition formations on the right. To fend off the crisis coalition that formed during the second reading and to legislate the program, Chubais had to make costly policy compromises to rebuild his coalition.

Finally, under conditions of centrifugal competition, increased fragmentation, intense intraparty volatility, and realignment, the potential for a strong conservative coalition was realized. As expected, the liberals were marginalized as their numbers decreased. Fragmentation



and defections combined with the divide on presidential powers hindered collaboration among liberal parties. The conservative Centrists became the dominant force with the potential to ally with Russian Unity. The only option that remained for the government in the submission of privatization was a crisis coalition.

## **Chapter Five**

### **Comparative Constitutions and Privatization Hungary, Czechoslovakia, and Russia**

In this chapter, I conduct a comparison of Hungary and Czechoslovakia as a further test of the institutional hypotheses. In addition, the analysis highlights similarities and differences with the Russian case. Further comparison permits us to address the core issue of this dissertation. Is there is relationship between the design of democratic institutions and optimal collective decision making? The Hungarian and Czechoslovakian cases were chosen because they conducted similar processes of decision-making. But each had distinctively different constitutions that structured the patterns of power distribution. Unlike Russia, both cases are parliamentary. However, the comparative exercise focuses on the more abstract level of the distribution of power and electoral system. Such an approach permits a deeper analysis that goes beyond just differences in regime type.

In all three countries, a similar account also can be developed tracking executive leadership in the formulation, initiation, and implementation of privatization. The new elites experienced serious uncertainty resulting from building democracy by using amended constitutions. Nonetheless, it is expected that the actors' behavior related to maximizing their respective transition agendas by operating within the new rules of the game.

For Hungary, policy actors competed to adopt contested visions of privatization in a centralized prime ministerial system of governance. Like Great Britain's majoritarian system, Hungary is often admired for its efficient and rapid policy response. Like Russia, Hungary's constitution creates a powerful executive in which the legislative powers are centralized in the office of prime minister. Hungary differs from Russia in that the non-legislative powers gave the chief executive control over the cabinet and to some extent over the executive's

accountability. Hungary also differs from both Russia and Czechoslovakia because its majoritarian electoral system provided for the government standing legislative majorities, thereby reducing the demand for inter-party cooperation.

With few important exceptions, the privatization literature attributes Czechoslovakia's privatization successes and dilemmas to ideology (Schwartz, 1998; Appel 1998), elite consensus, and party system development (Orenstein, 1996). My analysis of Czechoslovakia's party system differs from previous accounts in that I examine the structural characteristics of party formation as an empirical question. By exploring the unity of purpose variable, we can see why the political structure structured differing levels of elite consensus.

Unlike many accounts, David Stark (1998, 2001) offers an institutional explanation for Czechoslovakia's successes. Stark (2001) points to Czechoslovakia as the exemplar of his "effective executive model." For Stark, institutions such as federalism, proportional representation, coalition government, and the normal confidence mechanism created what he calls "enabling constraints." As a contrast to power-based institutional explanations, Stark highlights the incentives that induce cooperation and gains from exchange. In this chapter, I argue that the Stark thesis is plausible. But my account also highlights the ways that the power-maximizing interactions between the president, prime minister, and ministers with portfolio also contributed to the final outcome.

Party system development in Czechoslovakia differed from Russia and Hungary. Czechoslovakia like Hungary can be described as a case of Sartori's moderate pluralism (Elster, Offe, and Preuss, 1998). However, Czechoslovakia's proportional representation system created a high demand for inter-party cooperation (Kitschelt, 1998). As demonstrated by the findings on

the purpose variable, favorable partisan conditions also predict a stable supply of legislative coalitions in parliament.

Having sketched the criteria for case selection, the question arises whether consensual or majoritarian institutional configurations were more or less conducive to achieving radical, equitable privatization policies. Beyond the majoritarian and consensus dichotomy, what can their respective constitutions tell us regarding the capacity for each system to optimize collective decision making?

To address these questions, the analysis proceeds in four sections. In the first section, I use data from the privatization institutions, the World Bank, OECD, and European Bank for Reconstruction and Development to compare the degree and kind of change. Hungary and Czechoslovakia were chosen as contrasting cases to the Russian Federation since they were considered leaders in privatization among the postcommunist countries. Like Russia, the Eastern European countries conducted similar processes of formulating policy, legislating the legal framework, and divesting their state enterprises to transform their property regimes.

Hungary and Czechoslovakia had distinctive achievements as well as dilemmas for which they are well known. In contrast to Russia, both countries are considered leaders in privatization in the region. Surprisingly, however, Hungary appears to have been the slow-starter (Kiss, 1992; Canning and Hare, 1998). Of the three countries, Czechoslovakia demonstrates the highest performance on indicators such as legislative productivity and divestment.

The second section addresses the variance in privatization results by comparing the institutional configurations that governed decision making. My analysis begins with the coding of each country's constitutional powers. It is based on comparative constitutional analysis using

the amended 1989 *Constitution of the Republic of Hungary* and the amended 1968 *Constitution of Czechoslovakia*.

In the third section, the independent executive thesis, premised on the (de) centralization of non-legislative powers, is examined. Likewise, both cases are compared to consider the validity of hypothesis two. It addresses whether executive power or the dominant executive thesis per se can plausibly explain the variation between Hungary and Czechoslovakia. It also highlights similarities and differences between the two East European cases and the Russian Federation.

In the fourth section, the two intervening variables are factored in to see if some theoretical leverage can be gained by applying the concepts and methods of positive institutionalist theory. Hypothesis three considers multicameral institutions as a possible constraint upon executive power. Once we have identified the complex layering or nesting of institutions (George Tsebelis, 1990), the objective is to identify the dynamics of governance as generated by institutional incentives. The fifth section investigates the effects of electoral rules and party system development as a second set of competing hypotheses (H:5 and H:6).

### **I. Czechoslovakia and Hungary -- The Degree and Kind of Property Change**

The comparison of Hungary and Czechoslovakia is conducted using criteria related to the pace and volume of divestment, the scope of privatization during its first phase, and the sustainability of policy as well as its coherence. Hungary and Czechoslovakia are similar regarding their leadership in the region and long-term accomplishments. In contrast to Russia, both countries also are credited for avoiding insider privatization and having fairly equitable and transparent programs.

Hungary differs from Czechoslovakia because privatization has taken over a decade. One reason for the slow pace of divestment stemmed from Hungary's reliance on asset sales as used in Great Britain during the 1980s. However, political factors also contributed to difficulties in legislating privatization framework laws and policy instability. Prime ministerial control also is cited by some given its micro-management of the country's privatization agency.

#### **A. Czechoslovakia's Mass Voucher Privatization: Divestment and Sustainability**

With some important exceptions, the Czechoslovak privatization voucher program is held in high esteem. While subsequently imitated in a number of other East European countries, the design of the program was untested and considered radical when championed in 1991 by Finance Minister Vaclav Klaus. Large-scale privatization entailed the transformation of state-owned enterprises in industry, agriculture, and services. Mass privatization proceeded in two waves. In the first wave, 2,800 enterprises were slated for privatization; 2,000 enterprises were privatized in the second wave.<sup>1</sup> Former state enterprises often were broken up into smaller units and sold separately. Therefore, thousands of privatization projects came under the administration of the large-scale program.

The centerpiece of Czechoslovak large-scale privatization policy was the voucher program. Under the plan, the Czechoslovak Government distributed the bulk of the shares in corporatized enterprises to the Czech and Slovak citizenry in exchange for vouchers<sup>2</sup>. Politically, the voucher method obtained political support for economic reform by including citizens in the privatization effort.

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<sup>1</sup> Privatization methods included transformation of a joint company and its sale through vouchers, direct sale, public auction, public tender, or transfers to municipal property. In addition up to 5 percent of the shares could be transformed into employee shares and sold for usually a lower price. Some free transfer of shares happened through municipal program, but otherwise voucher coupons required a nominal fee and shares were sold rather than given away. Permanent state ownership represented the state's decision to continue ownership in strategic industrial sectors.

<sup>2</sup> Since most of the implementation of the program followed the decision to divide the Czechoslovak state into two separate countries, my references will be to the Czech Republic as the implementer of the

The large-scale program began in May 1991, but only 27 projects were approved during 1991.<sup>3</sup> In 1992, the process was accelerated through setting a deadline for approval. By December 1993, the Ministry of Privatization had approved projects concerning 2,470 firms and an additional 2,980 firms by 1994. As of December 1993, the National Property Fund had actually finalized 55 percent of approved public auctions, 57 percent of public tenders, 68 percent of direct sales, 80 percent of transformations into joint stock companies, and 50 percent of free transfers.

In sum, large-scale privatization as envisioned took place in two waves over four years. The large-scale, small-scale, and restitution programs were completed in 1995 on schedule. One year later the privatization ministry closed having completed its mission. International organizations such as the World Bank and East European Bank for Reconstruction and Development hailed the program's success citing that the Czech's had privatized 80 percent of its state assets.<sup>4</sup>

In addition to the pace and percentages of property transferred, the coherence and sustainability of Czechoslovakia's large-scale privatization policy often are cited as important achievements.<sup>5</sup> Coherence refers to the consistency of policy design. Specific features that contributed to programmatic coherence include the mass voucher program, the small charge for vouchers to create new capitalists, the non-tradeability of vouchers to assure an initially wide

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<sup>3</sup> Project approval, however, was only the first stage of divestment. Subsequent procedures were time-intensive because a number of steps were involved. Following project approval, commercialization, negotiations with new owners, and sale took up to a year.

<sup>4</sup> The Czech program although overall successful had one crucial failure. The government omitted the privatization of the commercial banking sector. Since the commercial banks were the ultimate recipients of corporate enterprise shares, a confused pattern of property right ensued.

<sup>5</sup> Lazlo Bruzt and David Stark (1998) *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge: Cambridge University Press); David Stark, "Enabling Constraints: Institutional Sources of Policy Coherence in Post-Socialism," unpublished paper, 2000.

dispersion of property rights, the absence of concessions to special interests to assure fairness, and the limitations on foreign investment.<sup>6</sup>

Claims regarding policy sustainability also can be supported. Czech reformers were able to avoid major and frequent policy shifts, and to modulate policy through adjustments. Unlike the Russian program, the Czechs were able to avoid the need for annual approval of privatization programs by the legislature. Following the approval of the framework legislation, only one major challenge was posed to alter the major principles of the program. During the 1992 elections, the social democrats ran on a platform to reverse the neoliberal program, insisting on a slower asset sales approach and greater state intervention. The overwhelming victory of Klaus's neoliberal, conservative party brought this challenge to an end.<sup>7</sup>

### **B. Hungary's Asset Sales: Divestment and Stability**

In contrast to Czechoslovakia, Hungary chose a strategy of case-by-case asset sales rather than mass voucher methods. The Hungarian government's goal was to privatize half of the state sector by 1995. To this end, the first major large-scale privatization program was launched in fall 1990; it targeted twenty blue chip companies. Simultaneously, the government also began its "pre-privatization" program. 'Pre-privatisation' refers to the sale of 40,000 small business units, mainly in the trade, catering, and service sector (shops, restaurants, motels etc.). The second phase of industrial privatization was launched in spring 1991; the enterprises targeted for privatization were loss-making enterprises. In 1991, to speed up divestment through the decentralization of privatization, the government launched the "self-privatization" program.

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<sup>6</sup> John S. Earle and Scott G. Gelbach. "Privatization Policy Design and Public Support for Economic Reform," SITE Working Paper No. 141 November, 5, 1998.

<sup>7</sup> Brad A. Helicher, "Klaus's Middle Game: Repercussions of Privatization and Democratization in the Czech Republic," in Donald M. Hancock and John Logue, eds. *Transitions to Capitalism and Democracy in Russia and Central Europe: Achievements, Problems and Prospects* (Westport, Connecticut and London: Praeger, 2000) pp. 155-181.



In Hungary, the pattern of divestment reflects the slow pace of sales. Initially, the government had targeted 2,200 industrial enterprises for privatization.<sup>8</sup> By 1993, only about one-third or approximately 760 were transformed, and 200 of these were privatized using self-privatization methods. According to the SPA, the *First Privatization Program* resulted in the sale of 14 firms out of 20 “blue chip firms companies being offered. The *Second Privatization Program*, also did not achieve the targeted divestment objectives but generated significant revenues for the state budget. In addition, the small-scale “self-privatization program” that began in October 1991 improved the government’s privatization track-record for medium size firms.<sup>9</sup> As illustrated in Table 1 below, only 157 large enterprises had been sold or merely 9 percent of the 1,747 total targeted for privatization and sale. Nonetheless, between December 1992 and December 1993, the private sector's estimated contribution to GDP rose from around 25 per cent to 65 per cent, while its share in employment was estimated at around 53 per cent at the end of 1993.

**Table No. 5.1: Receipts of the Privatization Agencies**

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total
1	31	77	170	157	481	176	350	112	133	59	1747

*Source:* Árpád Kovács, “Privatization in Hungary 1990-2000,” Paper by the State Audit Office Hungary, [resented to the Intosai Working Group on the Audit of Privatization, Eighth Meeting, June 2001.

<sup>8</sup> The figure of 2,200 was reduced to approximately 1,747 after companies were closed down because of their poor financial position and lack of business prospects. Árpád Kovács, “Privatisation in Hungary 1990-2000,” Paper by the State Audit Office Hungary, Presented to the Intosai Working Group on the Audit of Privatization, Eighth Meeting, June 2001, p. 46.

<sup>9</sup> By 1994, of the 457 medium-sized state enterprises placed in this category, 478 underwent transformation, and 412 had been sold.

The Antall government envisioned a mixed economy in which 50 percent of the economy would be privatized; the other 50 percent comprised of strategic enterprises would remain under control of the state. The mixed market scheme was reversed when the Horn government took office in 1994. By 2000, privatization had been completed in the industrial, banking, utilities and other strategic sectors. As Kovács (2001) has noted,

The most ambitious privatization in the region has been completed. Today, the private sector runs personal and commercial banking, the insurance sector, the pharmaceutical industry, the chemical industry, the construction industry, most of the machinery industry, the tobacco industry, the brewing industry, the food industry, the leisure and hotel industry, publishing, the paper industry, packaging, and grocery and general retail chains. In addition, many of the public utilities have been privatized including, the national communications company (Matáv), the national oil and gas company, as well as many of the electricity supply and production companies.

Along with Hungary's achievements, the problem of policy instability has received equal attention in the privatization literature. The tendency for the government to alter policy strategy has been characterized by one observer "as shifts between policy extremes in search of solutions to the unanticipated consequences of previous strategies."<sup>10</sup> Others caution that some policy adjustments stemmed from routine learning.<sup>11</sup> Whether crisis management or policy learning guided the government's changing responses, the evidence indicates that Prime Minister Antall authored at least five programs with differing approaches to large-scale privatization between 1990-1994.<sup>12</sup>

Hungarian policy also tended to alternate between centralized and decentralized approaches to privatization. In 1991, the leadership also shifted away from a key strategic goal

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<sup>10</sup>Lazlo Bruzt and David Stark, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge: Cambridge University Press, 1998) p.167.

<sup>11</sup>Anna Canning and Paul Hare, "Political Economy of Privatization in Hungary: A Progress Report," *Working Papers Center for Economic Reform and Transition*, September, 1996.

<sup>12</sup> For instance, centralized asset sales through the Budapest stock market and tenders was introduced in July 1990, E-credits in November 1990, leasing in June 1992, employee share schemes or ESOPs in July 1992, and compensation vouchers in December 1992.

that targeted privatization as source of maximizing budget revenue. Revenues from privatization instead were shifted to modernizing and restructuring state-owned assets rather than proceeding with privatization.

The objectives of the privatization program were changed as budgetary issues declined in prominence. Some of the newer goals were public-goods oriented aimed toward creating and fostering a property-owning middle-class. Political objectives also appeared to motivate other policy adjustments. For instance, to shore up its political base in the regions, the Hungarian Democratic Forum's (MDF) used property reform to ensure the growth of its agricultural constituency. In addition, the government replaced the strong emphasis on attracting direct foreign investment with a new focus on domestic investment, especially among small individual investors.<sup>13</sup>

### **C. Czechoslovakia and Hungary: The Kind of Change**

Unlike Russia, Hungary and Czechoslovakia were able to avoid insider privatization. The one negative similarity that Czechoslovakia shares with Russia concerns the emergence and prominence of large financial, industrial conglomerates. Although Hungary had problems with the eventual clarification of property rights, its high-growth economy demonstrated an equitable income structure. The following discussion probes the linkages between each country's policy strategy and these outcomes.

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<sup>13</sup> Favourable loan schemes (E-credits) were initiated to enable individuals to participate in the "small" privatization program involving principally retail and catering outlets. In the latter period of the Antall government's term in office, employee share ownership was given higher priority (initially only 5-10 per cent of company shares were set aside for purchase at preferential rates by employees) and supported by preferential loans.

## **1. Czechoslovakia: Moderately Equitable Distributional Consequences**

The Czechoslovak large-scale privatization law was unusual because it spread the benefits of privatization directly to the greatest portion of the population.<sup>14</sup> The “Large Scale Privatization Act” unlike Russia’s did not permit special concessions for enterprise employees, workers or management. Competitive built-in mechanisms for selecting “winning” privatization schemes were put into place. The government sought to ensure that enterprises could not circumvent the distributive features of the legislation.<sup>15</sup> The Ministry of Privatization also tended to approve enterprise privatization plans that followed the government’s preferred formula of setting aside at least 62 percent of the shares targeted for vouchers.

While discouraging insider privatization, Czechoslovakia achieved distributive justice through the participation in the privatization process of 6 million Czech and Slovak citizens. Czech citizens traded nearly three-quarters of the vouchers issued on the first round of bidding. By establishing only authorized intermediaries, Czech citizens also were offered an opportunity for converting their vouchers into a profitable investment. The public also perceived the design of the program to be fair. Czech vouchers could not be traded which ruled out the arbitrage and speculation that resulted in Russia with its tradeable coupons.

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<sup>14</sup>By claiming the policy to be public goods oriented, one could assume that mass privatization if designed properly always has this property. Voucher privatization was controversial and may well be linked to distortions that surfaced later in the transition. But, it is not the task of the research to assess the desirability of mass voucher privatization over direct asset sales, but only to assert the design of policy as well as the shorter-term outcomes well-established to be associated with that policy design.

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**Table No. 5.2: Ownership Patterns of Czech Enterprises in 1994 and 1995**

Owner	1994	1995
Investment Privatization Funds	38.0	31.5
Individuals	25	18
Strategic Partners	11.5	17
Foreign Partners	4	7
National Property Fund (the state)	14	13
Managers and Employees	1.5	6.5
Others		

**Source:** Raj M.Desai and Vladena Ploková, “The Czech Republic,” in Ira W. Lieberman, Stilpon S. Nestor, and Raj. M Desai, eds. *Between State and Market: Mass Privatization in Transition Economies* (Washington D.C.: The International Bank for Reconstruction and Development/The World Bank, 1997) p. 193.

In Czechoslovakia, neoliberal policies did not include insider benefits in the design of its large-scale program. Policy mechanisms such as non-tradeability of vouchers were incorporated to disperse ownership and to minimize the role of enterprise insiders. Social policy guarded against excessive unemployment and generated job creation. However, Czechoslovak privatization also had unintended policy consequences. For instance, a concentrated ownership structure emerged in the later 1990s, a problem that has been attributed to the failure of the Czech authorities to implement an adequate regulatory regime.<sup>16</sup>

As originally conceived, the Czechoslovak voucher privatization assumed that only individuals would participate in the program. To compensate for the dispersion effects of this strategy, the government set up privatization investment funds. The purpose was to create an institutional mechanism that offered for sale concentrated blocs of stock. For prospective buyers,

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<sup>16</sup> Often this problem is attributed to Vaclav Klaus’s belief in the market and his reliance neoliberal economic theory. In this account, Klaus misjudged the potential dangers involved in the failure to privatize the commercial banks and the use of property investment funds as a means to create majority bloc shares.

the ability to purchase majority stakes was viewed as necessary to assert control over the newly privatized enterprises. Investment funds were limited by law to 20 percent, but the funds easily circumvented this rule.<sup>17</sup> Because of this loophole, financial industrial groups were able to form in the unregulated market of mergers and acquisitions. While the rise of FIGs was not part of state-mandated industrial policy, the outcome held similar consequences.

As Table 5.4 below outlines, the effects of large industrial conglomerates may be related to Czechoslovakia pattern of increasing inequality in its income distribution; the change in the gini coefficient following privatization was approximately 19 percent in 1989 and 27 percent in 1993 or a 42 percent change in increased inequality. However, the indicator of inequality is relatively low in comparison to Russia, where there was a 100 percent increase in inequality.

## **2. Hungary: Equitable Distributional Consequences**

According to official figures, by the end of 1997 private enterprise accounted for nearly 80 per cent of GDP, and almost three-quarters of capital was privately owned.<sup>18</sup> As in Czechoslovakia, the Hungarian government largely was able to avoid insider ownership. Hungarian individuals, companies, corporations and ESOP organizations ended up with a 38 percent share while foreigners owned roughly 33 percent. Of the remaining 28 percent, 18 percent belonged to the government, nearly 8 percent by local governments, with the rest controlled by other organizations.<sup>19</sup>

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<sup>17</sup> In the Czech Republic, 264 funds were registered and 165 in the Slovak Republic for the first round. In the first wave the largest funds dominated; the fourteen largest funds collected 78 percent of investment points allowed to investment funds. Of the fourteen, nine were founded by Czech and Slovak financial institutions. Eight were formally state-owned banks. These financial institutions accumulated 40 percent of investment points and 56 percent allotted to all investment funds -- the equivalent of 30 percent of all shares being privatized.

<sup>18</sup> Eva Vozka, "Privatization in Hungary: Results and Open Issues," *Economic Reform Today: Privatization in the Digital Age*; Number 2, 1999.

<sup>19</sup> Ibid.

**Table No. 5.3: Ownership Structure of Hungarian Companies**

(% in assets)	1992	1993	1994	1995	1996	1997
Total domestic private owners	25.1	29.0	32.9	35.2	34.7	38.2
Foreign owners	0.1	16.1	18.9	28.4	31.5	35.3
Total private ownership	35.2	45.1	51.8	63.6	66.2	73.5
Total state and other	64.8	54.9	48.2	36.4	33.8	26.5

Source: Pitti, Zoltan, 1998 cited in Eva Vozka, 2001

The distribution of property rights in Hungary is significant for two reasons. First, the pattern offers support to Hungary's success with foreign investment. Second, as in Czechoslovakia, Hungary was able to avoid problems with insider privatization. Although Hungary offered preferential shares to employees and management buyouts, the law set strict limits as to which companies employees could be participants.

Hungary's privatization also contributed to its equitable income structure. Despite, major reallocations of wealth resulting from recession and property redistribution, the Gini coefficient changed only by 1 percent with the top quintile holding only 1 percent of the nation's wealth. In comparison to Russia and the Czech Republic, the differences are striking. Czechoslovakia's problems stemmed from the concentration of wealth in investment funds and formation of industrial conglomerates. In Russia, governmental industrial policy created the distortions as evidenced by 20 percent of nation's wealth in the hands of the top quintile. According the World Bank, Hungary avoided problems with inequity because of its focus on outside owners, foreign investment and transparency of transactions.<sup>20</sup>

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<sup>20</sup> *Making Transition Work For Everyone: Poverty and Inequality in Europe and Central Asia* (Washington D.C.: The World Bank, 2000).

**Table No. 5.4: Comparative Measures of Inequality: The Gini Coefficient**

	Gini Coefficient 1988-1989	Gini Coefficient 1993-1994	% Change	Income Share Top Quintile
Hungary	21	23	.10	1.07
Czech Republic	19	27	.42	5.77
Russia	24	48	1.00	20.02
*	28	40		

Source: Joel Hellman, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions" *World Politics* Vol. 50 No. 2 1998; \* Nodaria Simonia, "Russia" in Vladimir Mikhalev in UN/UNDR project *Income Distribution and Social Structure During the Transition*, 1999 p. 8-12.

### 3. Privatization Findings in Comparative Perspective

Today, Hungary is credited with having the most successful privatization program of all the postcommunist countries. During the ten-year time frame (1990-2000), privatization has been conducted under three governments that enjoyed prime-ministerial governance. However, for the first two Hungarian governments in office from 1990 to 1998, the transformation to a system of private property was neither direct or fast. During 1990 to 1994, Hungary could show accomplishments regarding the sales of several major enterprises, attracting foreign investment, and relieving the countries foreign and domestic debt. However, as noted, the overall program to divest the country's state enterprises fell short of its divestment goals.

In comparison to Hungary, Czechoslovakia's long term outcomes also are lauded. Most analysts agree that Czechoslovakia's voucher program was the most well designed and executed of all the postcommunist privatization programs.<sup>21</sup> Equally important, Czechoslovakia privatized 80 percent of the state's industrial assets; the process was governed by a single program over a five time-frame. Given the breakup of Czechoslovakia into the Czech and Slovak Republics at the end of 1992, the voucher program's continuing achievements appear even more impressive.

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<sup>21</sup> The problems also have been well-documented. The most cited concern the corruption issues related to the privatization investment funds, the failure to privatize commercial banks, ill-defined property rights, and the concentration of wealth in large industrial conglomerates.



## **II. The Constitutional Distribution of Powers in Hungary and Czechoslovakia**

Comparative constitutional analysis of each country's respective amended constitution is used to code the two cases. The non-legislative and legislative powers are coded separately, then both are used to create an additive index of executive power. The findings indicate that Hungary's constitutional arrangements fit the majoritarian model with two important caveats -- the norm of coalition government and the Hungarian Constitutional Court. Czechoslovakia's constitution decentralized power consistent with a consensus democracy and stipulated power-sharing necessary for consociationalism.

### **A. Hungary and Czechoslovakia: The Non-Legislative Powers**

Table 5.5 outlines the summary scores regarding the distribution of non-legislative powers. Hungary's score of 11 reflects the relative concentration of executive control over the cabinet and to some extent the prime minister's control over accountability. On the censure power Hungary's score of 4 reflects the design of the constructive vote of no confidence. The constructive no-confidence vote weakens parliamentary authority while it centralizes power in the office of prime minister. To remove a prime minister from office, the National Assembly must propose a new prime minister and government, who is elected if the motion is passed.<sup>22</sup> The procedure also requires the approval of the majority of members elected to the National Assembly. Because of the complexity of the constructive no-confidence procedure, the terms of the prime minister and the cabinet are virtually guaranteed.<sup>23</sup>

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<sup>22</sup> Ibid. A non confidence motion against the Prime Minister also is to be regarded as a non confidence motion against the Government.

<sup>23</sup> The constructive vote of confidence was first used in Germany after World War II to prevent the instability of government characteristic of the Weimar Republic. In Hungary, if parliament wants to withdraws confidence from cabinet (the Council of Ministers), at least one-fifth of the members of Parliament shall be required to submit a motion of no-confidence, and Parliament shall make the decision on the issue of electing a new Council of Ministers within forty days after withdrawal of confidence. However Prime minister and his ministers shall remain in office until a new prime minister and his or her cabinet is elected and, shall exercises all powers and rights that are due to a Council of Ministers. Furthermore, if the parliament can not elect new Council of Ministers in the forty days, the

Czechoslovakia's score of 2 reflects the normal, but rationalized no-confidence procedure. The Federal Assembly could hold the government accountable through a successful no-confidence vote. The motion could be introduced with a minimum of one-fifth of the members of either chamber.<sup>24</sup> The vote of confidence could be approved with (1) a majority in the House of the People, or (2) a majority of the present members of the House of the Nations elected in the Czech Republic, or (3) a majority of the members of the House of Nations elected in the Slovak Republic.

Hungary's score on cabinet formation is 3 while Czechoslovakia's score is 2. The difference in the scores reflects the ability of the Hungarian prime minister to control the appointment and dismissal of individual cabinet members. The National Assembly cannot remove or call for the removal of individual members. A no-confidence motion against the prime minister was the same as a no-confidence motion against the Government.<sup>25</sup> Reflecting the principle of collective responsibility, this provision further strengthens the prime minister's control over the cabinet. The prime minister effectively becomes "one above unequals," who is equivalent in authority to the British premier.

In Czechoslovakia, the prime minister appointed and dismissed the cabinet with the approval of the parliament. However, parliament could remove individual cabinet ministers since the no-confidence vote could be aimed at the government as a whole or at individual members.<sup>26</sup> Consequently, the prime minister's control over the cabinet was discounted since he/she was given the status of "one among equals."

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non-confidence becomes ineffective.

<sup>24</sup> Article 43:2.

<sup>25</sup> Article 39/A (1).

<sup>26</sup> Article 43:3.

In Hungary, the indirectly elected president can be removed by the National Assembly through articles of impeachment.<sup>27</sup> The President while strictly accountable to parliament has a weak but consequential ability to dissolve parliament. The provision states that “the President of the Republic may dissolve Parliament simultaneously with setting the dates for the new election if (a) Parliament has at least four times within twelve months during its own mandate withdrawn its confidence from the Government.”<sup>28</sup> Hungary’s constitution does not permit the Prime Minister to dissolve parliament. Hungary’s constitutional provisions for parliamentary dissolution, combined with design for censure and impeachment, fundamentally make the two branches independent rather than interdependent upon one other.

The design of Czechoslovakia’s dissolution and impeachment compliments the simple no-confidence provisions. In contrast, to Hungary, the net effect is to create strong interdependencies among the branches. In Czechoslovakia, the president could dissolve the parliament under special conditions such as when it did not approve a budget. The constitution makes its extremely difficult to remove the president since the criteria for removal was the charge of high treason. Article 43:1 also gives the government the right to ask for a vote of no-confidence. Thus, while the government does not have formal dissolution powers, it could and can conceivably use the no-confidence power as a first step to dissolving the parliament and calling for new elections.

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<sup>27</sup> According to Article 31A (2), one-fifth of the Members of Parliament may lodge a motion to impeach the President of the Republic if he has offended against the Constitution or any other law. As continued in sub-section 3, the votes of two thirds of the members of Parliament were required to start the impeachment procedure. The Hungarian president was a ceremonial position. The design of this procedure, by stating the criteria as offense against any law lowers the bar for impeachment as in the Russian constitution. The key difference is that the Hungarian constitution is specific in its requirement for a super-majority to initiate proceedings.

<sup>28</sup> Article 28 (3)

To summarize, in Hungary the distribution of non-legislative powers were concentrated in the executive in Hungary. The Hungarian and Russian executive controlled cabinet appointments. Despite the Russian executive's initial right to appoint and dismiss the cabinet independent of parliament, the provisions were preliminary and the first to undergo parliamentary revision by late 1992. The Russian executive also was less secure in his tenure given the low bar for impeachment. In addition, parliament could assert some control over the government by invoking its right to approve and censure the prime minister.

In contrast, in Czechoslovakia, the coding reflects the more balanced arrangements. The Czechoslovak prime minister did not entirely control the cabinet or its own accountability. However, the discussion below shows that this constitutional design along with the balanced distribution of legislative powers appears more likely to induce more cooperative outcomes.

**Table No. 5.5: Comparative Index Non-legislative Powers**  
1990-1992

Country	Russia	Hungary	Czechoslovakia
Cabinet Formation	3	3	2
Cabinet Dismissal	3	3	2
Censure P.M.	0	4	2
Dissolution Parliament	0	1	1
Impeachment	0	N/A	N/A
	6	11	7

## **B. Hungary and Czechoslovakia: The Distribution of Legislative Powers**

The index of legislative powers includes amendment, veto, decree, referenda, and budgetary powers. The Hellman and Frye (1998) index of powers was used since it represents a standard method to capture the differences in the design of the powers in postcommunist or new

democracies. The index also is meant to describe both the powers of prime ministers and presidents. Following Shugart and Carey (1997), I divide the powers into proactive and reactive categories to emphasize their strategic role in legislating privatization laws.

Although the index provides an important guide to powerful executives, there are some shortcomings. For instance, the coding for amendment and areas of exclusive proposal does not capture the full agenda-setting powers available to the executive such as setting time limits on bill consideration or attaching a confidence vote to a bill. Therefore, I have added an additional category of initiation power also scored 0 to 4 (see Appendix B). Otherwise, the index captures much of the comparative differences and patterns of constitutional powers among the cases.

**Table No. 5. 6: Comparative Index Legislative Powers**

1990-1992	Russia	Hungary	Czechoslovakia
<b>Legislative Powers</b>			
Veto	1	N/A	N/A
Decree	4	3	1
Referenda	1	N/A	0
Budgetary	1	2	1
Initiation	3	3	2
Amendment	0	3	2
	10	11	6

### **1. Hungary: The Proactive Legislative Powers**

Hungary's score of 11 on the legislative powers does not fully describe or invoke an appreciation for the prime minister's wide-ranging powers. However, the coding reflects the prime minister's relative control over the policy agenda and the possession of decree power that could fill in for the absence of law. In the Hungarian amended constitution, legislation could be initiated by the president of the republic, the government, any parliamentary committee, and any member of parliament.<sup>30</sup> In one important respect, changes in the constitution through judicial

<sup>30</sup> *Constitution of the Republic of the State of Hungary*, Article 25 (1).

review in the next two years, changed the right of introduction; the president was limited by the requirement of the counter-signature of the prime minister.<sup>31</sup>

Likewise, the cabinet ministers serving at the pleasure of the prime minister were unlikely to act other than as agents of the premier.<sup>32</sup> Members of the National Assembly had the right of initiation and submitted 132 new bills between May 2, 1992 and November 1 1992.

However, only 13 of these proposals were accepted and acted upon. Alternatively, the government introduced 272 new bills and 29 initiatives.<sup>33</sup> Most legislation originated in the executive ministries at the behest of the government and prime minister.<sup>34</sup> According to most accounts, the submission of amendments, was largely a symbolic action used to voice a position on a bill, since most had little chance of being included in the final pieces of legislation.<sup>35</sup> For these reasons, the amendment power is scored a high 3 to indicate the relative control the prime minister had over this power.

Parliament's role as an independent proposal actor was limited by two sources -- the operating rules of parliament and its partisan composition. The parliamentary rules governing committee appointments were proportional.<sup>36</sup> The aim was to give smaller parties a greater role in legislative activity and to operate on the basis of consensus. Instead the proportionality rule

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<sup>31</sup> Patrick H. O'Neil, "Hungary: Political Transition and Executive Conflict: The Balance or Fragmentation of Power," in Raymond Taras eds. *Postcommunist Presidents* (Cambridge: Cambridge University Press, 1997) pp. 195-224.

<sup>32</sup> Lazlo Vass, "Politicians, Bureaucrats, and Administrative Reform in Hungary: Who Stops Whom?" Paper presented at ECPR Annual Conference, Mannheim, 26-31 March, 1999.

<sup>33</sup> Gabriella, Illonzksi, "An Almost Final Report: The Hungarian Legislature: From 1990 to 1993," *Journal of Constitutional Law in Eastern and Central Europe* Volume 1 No. 51 1994 p. 67.

<sup>34</sup> Ibid. p. 68.

<sup>35</sup> Ibid. p.69.

<sup>36</sup> This discussion is based on Ellen Comisso, "The Struggle Over Restitution in Hungary, in Beverly Crawford and Arend Lijphart eds. *Liberalization and Leninist Legacies: Comparative Perspectives on Democratic Transitions* (Berkeley: University of California, 1995) pp. 193-195.

gave the government added leverage because structurally the dominant divide was not between large and small parties but between government and opposition. Since two of the smaller parties were in government, the net effect was to give the government overrepresentation in the committees and strengthen its control over the legislature.<sup>37</sup>

The government also controlled several important agenda-setting instruments once legislation was submitted to the National Assembly. Government bills automatically went onto the agenda, and the agenda had to be approved by the parliament at each session. With the government having a parliamentary majority, opposition motions often were kept off the agenda by a simple vote. If a bill was given an urgent status by the government, the time it can spend in committee was limited. Recommendations on a bill just before the vote came from both the committee and the corresponding cabinet minister. When there was a conflict, the deputies often sided with the minister.<sup>38</sup>

In addition to controlling the policy agenda, the prime minister's legislative prerogatives were bolstered by decree power.<sup>39</sup> The prime minister could only use decree power with the force of law when prior legislation did not already exist. However, certain types of legislation were required to have parliamentary approval. The privatization framework laws and the asset guidelines of the privatization ministry fit in this category. The prime minister also had an advantage in the parliamentary arena. As a result of Hungary's majoritarian electoral laws, the prime minister had a standing legislative majority in parliament.

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<sup>37</sup> Ellen Comisso, "The Struggle Over Restitution in Hungary, in Beverly Crawford and Arend Lijphart eds. *Liberalization and Leninist Legacies: Comparative Perspectives on Democratic Transitions* (Berkeley: University of California, 1995), p. 187.

<sup>38</sup> Ibid.

<sup>39</sup> Article 37 1 (3) In the performance of their functions, the Prime Minister and the members of the Government may issue decrees. However, these must not be contrary to any law or any government decree and resolution. The decrees have to be promulgated in the Official Gazette.

## 2. Hungary: The Reactive Legislative Powers

In term of reactive powers, the National Assembly had amendment and oversight powers. The president also could influence policy since he had a veto provision.<sup>40</sup> However, constitutional provisions on executive veto permitted the legislature to override it with the a simple majority. The president also held referenda power, but it also was limited by the counter-signature requirement in its use. Importantly, the president, prime minister, and parliament held the right to send legislation to the constitutional court for an opinion.

## 3. Czechoslovakia: The Proactive Legislative Powers

In comparison to Hungary as well as Russia, the relatively weaker Czechoslovak chief executive had a total index score of 4 on the legislative powers. The Czechoslovakia prime minister does not have decree power nor control over the parliamentary amendment process. The index score reflects the prime minister's ability to control the agenda prior to legislative submission. However, the coding does not account for subtleties in the written constitution that clarified the roles of policy agenda setter, decider and blocker.

The Czechoslovak constitution specified a division of labor regarding policy making. The Federal Assembly had the exclusive right "to enact" amendments to the constitution.<sup>41</sup> A three-fifths majority requirement was established for constitutional amendments.<sup>42</sup> The parliament "*discussed*" matters of foreign and domestic policy, signifying the stronger role of the government in setting economic policy. However, the Federal Assembly "approves

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<sup>40</sup> Article 25 (2) If the President of the Republic does not accept the law or some of its provisions, he may, before signing it but within the deadline set in paragraph (1), send it back with his comments to Parliament for reconsideration. According to Article 25 (3) Parliament debates the law anew and decides on enactment again. After the reconsidered Act has been returned to him, the President of the Republic is bound to sign it and to promulgate it within five days of its receipt Article 25 (4) notes that if the President of the Republic thinks that any provision of the law may be unconstitutional, he sends it within the deadline set in paragraph (1) to the Constitutional Court before signing it, and requests a report on its constitutionality.

<sup>41</sup> Article 36:1.

<sup>42</sup> Article 41.



“medium-term plans of development of the national economy “and the federal budget.”<sup>43</sup> Simple majorities were required for normal legislation. A quorum also could be assembled through a majority of the deputies present.

The constitution appears to tip the balance of authority in favoring the government with the following article. Article 77:1 states that the government “*shall decide*” in matters regarding (a) bills of the assembly, (b) government decrees, (c) implementation of state policy, (d) basic questions of foreign and domestic policy, (e) drafts of state plans of development of the national economy; the Federal budget, and the final budgetary account of the Federation, and (f) basic economic measures for securing the implementation of economic policy. In terms of agenda-setting instruments, the prime minister also was able to attach vote of no-confidence to a bill.

The introduction of legislation and amendment power in the Federal Assembly was regulated by its rules of procedure. The committee structure in the Federal Assembly was proportional. The committees reflected the political spectrum elected into parliament so agenda setting within the Federal Assembly was diffused. However, Article 44, Section 1 also set time limits for the consideration of a bill; if one of the chambers adopted a piece of legislation, then the other had to adopt it within three months.

The government’s proactive legislative powers included the right of initiative that was divided among multiple actors.<sup>44</sup> According to Olson (1994), most legislation was proposed by the government, and most were adopted in some form. However, he notes that the “proportion initiated by the members was also fairly high in comparison to other democracies.”<sup>45</sup> The

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<sup>43</sup> Article 36:1(d).

<sup>44</sup> Article 45 stated that bills could be introduced by members of the Federal Assembly, the committees of both Chambers, the President of the CSFR (Czech and Slovak Federative Republic), the Prime Minister of the CSFR, the Government of the CSFR, the Czech National Council, and the Slovak National Council.

<sup>45</sup> Olson in making this assertion, does not present supporting data. David M. Olson “Federation and

government lacked decree power with the force of law as in Russia or Hungary.<sup>46</sup> Decree power was restricted to the execution of the law or the implementation in this case of privatization policy.<sup>47</sup>

However, regulatory decrees were important because of the generality of the provisions of the large-scale privatization laws; the crucial details of the law were left to be worked out in the Privatization Ministry. However, the Federal Assembly reserved the right to reverse any government decree or regulation.<sup>48</sup> During the later implementation phase (1993 through 1995), the power to overturn government regulations shifted to the constitutional court.<sup>49</sup>

#### **4. Czechoslovakia: The Reactive Powers**

Regarding the distribution of reactive powers, the executive including the president did not possess veto power. The president had some oversight over the government; he could request reports from the government and its individual members and discuss with its members any piece of legislation.<sup>50</sup> Legislation originated in the executive, but the rules of the legislature provided for an open amendment procedure. According to Olson, there is some evidence that the members of the Federal Assembly also used the rules of initiation to some extent as a reactive power. As Olson notes, some members initiated bills which the government considered, but did not submit for consideration. Members also proposed bills as alternatives to the government's bills. Opposition parties also authored bills as alternatives as a means to signal their position on a

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Parliament in Czechoslovakia" in Thomas F. Remington (ed.), *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder CO: Westview Press, 1994) p. 108.

<sup>46</sup> Hungary's rule of parliamentary procedure makes the majority party the dominant actor in the committee structure of the National Assembly. Thus the party that win the election not only chooses the prime minister, but can confer almost total control within the legislature.

<sup>47</sup> Article 79

<sup>48</sup> Article

<sup>49</sup> Constitution of the Czech and Slovak Federative Republic, Article 87, Section: 1:b

<sup>50</sup> Article 61, Section 1:h

policy issue.<sup>51</sup> Regarding the other reactive powers, the constitution did not provide for referenda, nor could the executive or parliament petition the constitutional court for an opinion prior to or after the enactment of a piece of legislation.

### **C. Summary: Distribution of Legislative Powers**

In ranking the three executives, the discussion of the legislative powers offers evidence that Hungary's prime minister was the most powerful in this study. The Russian president also was powerful but the powers from 1991 through 1993 were temporary, thus creating greater uncertainty in their use as he pursued his policy agenda. The Czechoslovak Prime Minister emerges from this analysis as a weaker chief executive. But the agenda setting powers significantly strengthen the incumbent's position in relationship to parliament.

The legislative powers also defined the institutional actors by their roles of agenda setter, policy decider, or policy blocker. Russia and Hungary's chief executives were empowered as the key proposal actors or agenda setters. The Russian president's extensive decree powers to some extent also made him the policy decider. However, as previously noted, Russia's parliament could respond and often did as a policy blocker. Contingent upon the distribution of partisan forces in parliament, the Hungarian prime minister could also claim the role of policy-deciding actor.

The National Assembly's ability to act as a potential policy-blocking actor is an important issue in Hungary's democratic development. For now it can be said that the parliament in its early stages responded to the powerful prime minister through amendments to bills, interpellations, and questions. Importantly the Hungarian parliament could go to constitutional court for an opinion prior to a proposal being submitted, during the legislative process, and after it had been legislated. Czechoslovakia's Prime Minister although usually portrayed as

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<sup>51</sup> Ibid. p.108.

significantly weaker, also constitutionally stood above parliament as the key proposal actor. During Czechoslovakia's first government, the key agenda-setters were the president and prime minister. Following the June 1990 elections, the Finance Minister who sought the most radical policy change was able to capture the role of agenda-setter and to effectively use it to control the policy outcome. Parliament, however, held the role of policy decider and policy blocker.

#### **D. The Distribution of State Power and Multicameral Institutions**

Multicameral institutions are important in that they have the potential to constrain executive power. Federal arrangements signify the possible loss of control by the center over policy decision making if regional authorities have a strong presence in the parliament. For instance, in the Russian Supreme Soviet, the representation of the regions was concentrated in the upper house. These representatives were elected to the Supreme Soviet by the Congress of People's Deputies, but the overall percentages of deputies that came from regions was small. Between 1991 through 1993, Russia's regional authorities asserted their influence on policy at the implementation stage. Multicameral institutions also could directly shape the powers of the chief executive. As the discussion of Hungary below illustrates, a constitutional court could discount the executive powers of agenda setting or strengthen parliament's veto power.

##### **1. Hungary: Unitary State, Unicameralism and Constitutional Court**

Hungary's score of 4 is based on the following institutional configuration. Hungary's constitution provided for a unicameral legislature and a unitary state structure; both features further buttress the other majoritarian features of governance. However, another significant set of constitutional amendments created a powerful constitutional court. The Hungarian Constitutional Court was given extensive powers. These included not only the ability to strike down any law or legal regulation as unconstitutional without possibility for appeal. The court

also the right to review unpassed legislation and even find the absence of legislation as unconstitutional. Moreover, in contrast to many Western European courts, the Hungarian constitution permits individual citizens to file complaints with the Court on abstract issues, in the absence of specific injury. As a result of these "vast formal powers," the court has played a crucial role in the consolidation of democracy in Hungary as a "safeguard of the transition."<sup>52</sup>

## **2. Czechoslovakia: Federalism, Tricameralism, and Constitutional Court**

Czechoslovakia's index score of 6 is based on its features consistent with Lijphart's consensus or consociational democracy.<sup>53</sup> Lijphart's categorization highlights Czechoslovakia's institutional features that decentralized power. Multicameralism was expressed by (1) the tricameral structure of the representative institutions at the federal level, (2) the federal and republic divisions of power, and (3) the Czechoslovak Supreme Court which held the power of judicial review.

Federalism is coded with only a value of 1. The reason is that the role of the Czech and Slovak National Assemblies were circumscribed at the National Roundtable Negotiations. The Czech and Slovak governments and assemblies were restricted to deciding only regional issues.<sup>54</sup> The constitutional court did not come into effect until 1992; when it became operational it had

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<sup>52</sup> Ethan Klingsberg, "Safeguarding the Transition: The New Constitutional Courts: Hungary," *East European Constitutional Review* Vol. 2 No. 1 Spring 1993. pp. 44-48; Gero Barbaras, "The Role of the Constitutional Court," Institute on East Central Europe, 1997 [.http://www.ciaonet.org/conf/ece01geb.html](http://www.ciaonet.org/conf/ece01geb.html).

<sup>53</sup> Consociational institutions were typified by Czechoslovakia's division of the executive and legislature to give minority representation. For instance, the posts of President and Prime Minister were traditionally given one to a Czech and the other to a Slovak. The Federal Assembly, the Czechoslovak parliament, maintained the same balance. Its two houses were balanced between Czechs and Slovaks - the House of the People was made up of 100 Czechs and 100 Slovaks, and the House of Nations of 75 Czechs and 75 Slovaks. In Czechoslovakia, these institutional arrangements were intended to make the country divided between ethnic Slovak and Czechs governable within a federative state.

<sup>54</sup> David M. Olson, "Federalism and Parliament in Czechoslovakia", in Thomas Remington ed. *Parliaments in Transition* (:Westview Press, 1994), p. 103.

the power of judicial review. The Federal Assembly, however, played a central role in privatization by enacting the important laws necessary to economic reform.<sup>55</sup>

Formally, the Federal Assembly was bicameral; it was based on the federal structure of the state. The Federal Assembly meets Lijphart's requirements for strong bicameralism; both chambers were assigned equal status and powers. In addition, the Federal Assembly was a three-chambered parliament designed to give equal representation to ethnic Czechs and Slovaks. Tricameralism came from requiring approval first from the Chamber of the People, then the Chamber of the Nations which had a double majority requirement. Each of the two republics had equal voting sections in the Chamber of Nations. Approval of a bill was required from each. Sensitive issues required a 60 percent majority of all members.<sup>56</sup>

In coding the effects of tricameralism, the score is based on David Olson's (1994) study of the Federal Assembly's legislative practices. According to Olson (1994), in the House of the Nations, the Czech section and the Slovak section could vote separately on constitutional issues. However, the Federal Assembly centralized decision making by often using

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<sup>55</sup> Without centralization of decision-making at the Federal level, the probabilities for changing the policy status quo would have decreased significantly. The Government was split between the federal government and republic governments. Czech Republic policy centers that could have become veto actors included the Czech Premier, Czech Ministers, and the Czech National Council. The same configuration in the Slovak Republic also could exercise its policy prerogatives. Assuming each state did not act as a unity actor, the number of policy actors could have increased by a minimum of six. Under the provisions established at the National Roundtable the federal principle was relaxed, but not eliminated.

<sup>56</sup> Each section of the House of the Nations was comprised of sixty deputies so thirty deputies if they were so determined or absent constituted a veto gate in the Assembly. So if the Slovak side defeated a bill with a relative minority of deputies, the Federal Assembly could not adopt constitutional legislation critical to transition See David M. Olson, "Federalism and Parliament in Czechoslovakia," in Thomas Remington ed. *Parliaments in Transition* (: Westview Press, 1994), p. 103; David Stark and Lazlo Bruzt *PostSocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge, Cambridge University Press: 1998 p. 181.

unicameral voting practices.<sup>57</sup> This means that decision making on important bills took place in joint session. For instance, Olson argues that “normal issues facing a country, were handled by the Federal Assembly on a unicameral basis, in committee and on the floor.”<sup>58</sup>

**Table No. 5.7: Comparative Index Multicameralism**

	Hungary	Russia	Czechoslovakia
Judicial Review	4	1	2
Bicameralism	0	1*	3***
Federalism	0	4**	1
Total Score (out of 12)	4	6	6

### **E. The Distribution of Powers Continuum**

To construct a total index of the constitutional power distribution, I included the summed legislative and non-legislative powers index then factored in the effects of multicameralism.<sup>59</sup>

The summary scores reflect Hungary institutions of majoritarian parliamentism. Furthermore, the coding indicated that both non-legislative and legislative powers were concentrated in the executive revealing an asymmetric pattern of legislative and executive relations. This pattern can be described as a single-actor asymmetric power configuration. Czechoslovakia differs from Russia and Hungary in one important respect; the institutions decentralize power in line with Lijphart’s (1984) category of consensual democracy. In this instance, the analysis of the powers

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<sup>57</sup> See David Olson, “Federalism and Parliament in Czechoslovakia,” in Thomas Remington ed. *Parliaments in Transition* ( :Westview Press, 1994). Olson (1994) argues that it is necessary to ascertain multicameralism in Czechoslovakia by type of legislation. Tricameral voting rules were reserved for constitutional issues and votes of confidence. Olson also develops an institutional rationale for why the parliament may have in reality functioned as a unicameral institution.

<sup>58</sup> Ibid. p.103.

<sup>59</sup> The further divisions of state power through federalism are expected to dampen an activist policy strategy on the part of the chief executive. As the executive and legislative powers, each dimension is assigned a score between 0 and 4. I deduct that score for each dimension that substantively represented a constraint on executive power. Czechoslovakia ends up with a total score of 6 accounting for the effects of tricameralism, federalism, and its constitutional court.

indicated a two-actor symmetrical distribution that potentially shaped executive and legislative relations.

**Table No. 5.8: Summary Score Powers Distribution**

Index Scores	Russia	Hungary	Czechoslovakia
Non-legislative Powers	6	11	7
Legislative Powers	8	9	5
Multicameralism	-4	-6	-6

The hypothetical distribution of power continuum is used as a heuristic device. The different placements can reflect a broad universe of cases. For instance, the left polar position stands for countries that like Great Britain have the Westminster configuration of institutions; a cluster of institutions that centralize power in the office of the prime minister. Next to the category of pure majoritarian countries are those that have institutional variations that depart from the pure majoritarian system. Hungary fits in this category because of its norm of coalition governance and the constitutional court. Towards the center of the continuum are countries that have characteristics consistent with a mix of majoritarian and consensus features. In these countries the majoritarian features more or less predominate. Russian presidentialism fits in this category with its powerful presidency, strong parliament, and federal state. At the right of center are the moderate consensus democracies such as Czechoslovakia while at the polar left are the highly fragmented consensual democracies.

Centralized	<	Intermediate	>	Decentralized
Majoritarian Great Britain		Consensual/Majoritarian Czechoslovakia		Highly Consensual Poland
Hungary		Russia		

**Figure No. 5.1: The Distribution of Powers Continuum**



### **III. Constitutional Powers: Executive Dominance -- Hungary and Czechoslovakia**

In the following sections, the dominant executive versus institutional incentives arguments are examined through the experience of Hungary and Czechoslovakia. The first section examines each country's capacity for effective lawmaking. The second section then briefly ascertains which aspects of Hungary' and Czechoslovakia's pattern of policy outcomes can be explained by the bivariate relationship between the distribution of powers and policy change. The third section, then ascertains whether the powers distribution variable shaping nature of executive and legislative relations and/or multicameral institutions can add to the explanatory power of distributive powers arguments.

#### **A. Hungary: The Pattern of Privatization Lawmaking**

Led by Prime Minister József Antall, the Hungarian Democratic Forum (HDF) came to power following Hungary's founding elections in May 1990. The newly elected Hungarian government took an activist stance toward privatization and its legislation. Within a month of coming to power, the Antall government had passed three important pieces of legislation necessary to launch large-scale and small scale privatization.<sup>60</sup>

While the SPA functioned as the institutional component of privatization, the Temporary Asset Property Guidelines determined Hungary's privatization strategy. The Guidelines were

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<sup>60</sup>The June 1990 laws included "On the State Property Agency and The Protection of State Property Entrusted to State Enterprises," "On Property Policy Guidelines" and the "Act on Privatization of Properties of the State in the Retail Trade, Catering and Consumption Services." The first piece of legislation assigned controlling power and responsibility for privatization to the State Property Agency (SPA). The Antall government asserted centralized authority over large-scale privatization by removing the SPA from under the direct supervision of parliament. He further strengthened control over privatization decisions by assuming appointment power over SPA's Board of Directors who initially included among others representatives of the major political parties. The SPA also was placed under the control of a minister without portfolio so that the Prime Minister could ultimately intercede in major privatization decisions. However, the Hungarian National Assembly retained the right to approve the SPA's operational guidelines and held oversight authority by requiring an annual performance report. According to Canning and Hare, the decisions of the SPA could not be appealed through the courts. Anna Canning and Paul Hare, "Political Economy of Privatization, in Hungary: A Progress Report," *Working Papers Center for Economic Reform and Transition*, September 1996 p.2.

first legislated in 1989. The new postcommunist government reformulated the Guidelines in June 1990, and the National Assembly approved the Guidelines in July 1990 as temporary privatization laws.<sup>61</sup> The government spent the next two years experimenting with asset sales, the scope of privatization (e.g., the ratio of public to private property that would characterize the economy), and the distributional formula that decided who would be the future owners. The Antall government replaced the Temporary Asset Guidelines with permanent legislation or its first set of framework laws in July 1992 -- Act LIV of 1992 and Act LV of 1992.<sup>62</sup> In 1994, the Antall Government also initiated "The Small Investor Share Program" that used a form of free distribution to speed up divestment.<sup>63</sup> Following the 1994 elections, the newly elected Horn government shifted approach through "the Privatization Act of 1995 XXX" that oversaw the divestment of the largest portion of Hungary's state-owned enterprises (e.g., the strategic enterprises).

## **B. Czechoslovakia: The Pattern of Privatization Law Making**

In Czechoslovakia, privatization was legislated strictly by parliamentary statutes rather than executive decrees that carried the force of law. During the tenure of the Government of National Understanding, the anti-Communist and pro-western consensus allowed for the legislation of new laws considered the building blocs for a democratic and capitalist society. The

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<sup>61</sup> Act VII of 1990. See also Anna Canning and Paul Hare, "Political Economy of Privatization, in Hungary: A Progress Report," *Working Papers Center for Economic Reform and Transition*, September 1996; Yudit Kiss, "Privatisation in Hungary -- Two Years Later," *Soviet Studies*, Vol 44. No 6.1992 pp. 1015-1038; David L. Bartlett, "The Political Economy Privatization in Hungary," *East-European Politics and Society*, (Winter 1992) pp 73-118.

<sup>62</sup> With the framework laws, the government widened the scope of state ownership. Approximately half the assets originally slated for privatization were transferred to a new organization, the State Holding Company that was established in October 1992. The State Holding Company was supposed to oversee strategic enterprises and state assets that would later undergo privatization.

<sup>63</sup> Similar to the Czech voucher system, the project offered all Hungarian citizens the opportunity to become owners of companies without a personal investment. Offering shares in only two companies, the first phase started just before the 1994 parliamentary elections and ended shortly afterwards with a change of government.

Civic Forum government that followed continued the momentum by legislating approximately twelve major pieces of legislation that constituted the legal framework for privatization.

In the Federal Assembly in 1990, the government returned property confiscated by the Communists in 1948 to its “rightful owners” in 1991.<sup>64</sup> On October 25, 1990, small-scale privatization was approved and implemented. During 1991 and 1992, the program privatized six billion crowns worth of retail shops, restaurants, and hotels by public auction.<sup>65</sup> The government then legislated the large-scale privatization program with “The Scenario for Economic Reform,” “The Law on Commercialization,” “The Large-Scale Privatization Act,”<sup>66</sup> and “The Commercial Code.”

In Czechoslovakia, implementation was accomplished by the privatization ministry utilizing the government’s constitutionally granted decrees and regulations. The government exerted strong controls over this phase of property change through multiple mechanisms, including its ability to decide which projects submitted through competition would receive approval. Furthermore, any crucial decisions regarding the details of privatization occurred within the Privatization Ministry.

Hungary and Czechoslovakia’s pattern of lawmaking reveal an important difference -- the systematic and concentrated nature of law-production in Czechoslovakia. In Czechoslovakia, the legislative agenda for economic reform and privatization was adopted by February 1991 or approximately one year after the first postcommunist government took over. By contrast, in Hungary, the government apparently was able to legislate a temporary set of laws within a period of a month. However, the first attempt to outline a comprehensive reform plan and legislate the

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<sup>64</sup>Federal Act No. 298 issued by the Federal Assembly on July 19, 1990 dealt with the restitution of church property. Federal Act No. 403 was known as the Minor Restitution Act. Federal Act 87 was known as the Major Restitution Act.

<sup>65</sup>Federal Act 427/1990.

<sup>66</sup>Federal Act 92/1991.

framework legislation took two years. In addition to its problems with legislative productivity, Hungary's privatization program was characterized by policy instability and slow divestment. The institutional analysis in the following sections offers some insights into Czechoslovakia's ability to effectively legislate and implement privatization in comparison to Hungary's uneven performance.

### **C. Executive Power and Policy Change: The Bivariate Relationship**

Hypotheses one and two (the majoritarian theses of policy change) hold that centralized executive power is the key to policy change. The centralization and concentration of policy resources stem from the design of the origin and survival rules, the distribution legislative powers in the hands of a single actor, and the absence of multicameralism. Executive capacity in policy making is expected to increase, and, by extension, the degree and kind of privatization outcomes.

#### **1. Hungary Centralized Power: Achievements and Stalled Legislation**

Hungary's experience during the Antall government (1990-1994) offers some evidence that illustrates the direct relationship between the executive's constitutional powers and policy change. One example was the legislation of Hungary's first privatization laws within a month of coming into office; the newly formed government with its electoral victory easily was able to draw upon its legislative majority in parliament to legislate the 1990 laws. In addition, the government replaced the parliamentary control over the SPA. Consequently, the Antall government immediately implemented large-scale privatization through asset sales. The government also used the SPA to eliminate the communist era worker's councils and possible stakeholder claims through renationalizing all state property. Importantly, the centralized government structures and the SPA limited the access of enterprise employees who were not able to extract preferential shares.

To assert further control over SPA, Prime Minister Antall replaced the governing board with many members of its own ruling coalition. The Prime Minister then reorganized the center of government (the ministries and other coordinating agencies). The purpose was to place the office of prime minister in direct control over all policy areas related to privatization.<sup>67</sup> The Ministry of Finance also was made central to the administration of privatization. Thus, budgetary concerns were given priority (e.g., the use privatization revenues to alleviate the international and domestic debt).

By examining the provisions of the privatization laws, other examples of executive control over policy can be found. Russian and Czechoslovak policy makers would have envied the Antall government's ability to legislate their preferred policy outcomes. The 1990 laws, the 1992 Acts, and successive policy initiatives show little evidence of compromise. For instance, the 1990 Act IV authorized the government's objectives regarding asset sales, targeting revenues for the budget, and a balanced approach to foreign investment consistent its evolutionary approach to privatization. With these steps, the Antall government was able to generate some momentum toward achieving its policy agenda. At the same time, while Hungary's initiatives outlined above were crucial to launching privatization, the Antall government failed for two-years to legislate the framework laws.

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<sup>67</sup>The Prime Minister had direct authority over the state owned enterprises and banks and the various agencies (the State Property Agency – SPA – for instance) responsible for their management and disposal (see Henderson et al 1995). Given the significance of these to activities to the creation of a thriving market economy and the restoration of economic growth, this was not surprising. In addition, the Prime Minister had direct authority over the Ministries of International Economic Relations, Industry and Trade, Transport and Labour. His authority over the Ministries of Agriculture and Welfare was more indirect; these ministries were under the control of the Independent Smallholders (FKGP) and Christian Democratic (KDNP) Parties respectively.

## **2. Czechoslovakia: Power-sharing and Effective Governance**

For Czechoslovakia, the findings from the constitutional analysis of the non-legislative and legislative powers can be summarized in three points. First, the distribution of non-legislative powers did not give rise to an independent executive or a parliament that dominated the executive. Like other Czechoslovak institutions power, the result was some decentralization that achieved a power-sharing arrangement. The executive did not have total control over its own accountability or the cabinet. The normal confidence procedure and parliamentary approval (dismissal) of the cabinet and individual members of the cabinet suggest the dependency of the prime minister on parliament. On matters of importance, the prime minister also could call for a vote of no confidence. The president had a fixed term and a high bar for impeachment, but the incumbent relied on parliament for reelection. The president under highly restrictive situations could dissolve parliament.

According to hypothesis one, an executive dependent on parliament should be associated with difficulties in the formation of the policy team, possible cabinet instability, and the lack of a long time horizon necessary to implement property reforms. However, the historical record shows that Czechoslovakia had no more difficulty in the appointment and securing parliamentary approval of the policy team than the highly centralized Russian and Hungarian cases. The leadership of radical reform emerged with the Government of National Understanding. Vaclav Klaus, Tomas Jezek and Dusan Triska the three fathers of Czech privatization as well as other influential neo-liberals then remained in key ministerial positions during the implementation of privatization. In addition, the last decade's experience also documents only one parliamentary call for a no-confidence vote in the government.

According to hypothesis two, massive property change should stem from the concentration of legislative powers of reform-minded executives. However, in Czechoslovakia the distribution of legislative powers also reflected the pattern of power-sharing pattern. The executive only appeared to be dominant over parliament regarding the agenda-setting powers. Stark (1998) and Orenstein (1996) point to the slow pace of privatization legislation as a function of the Czechoslovakian consensual parliamentary system. In particular, Orenstein (1996) attributes the successes to the high level of consensus among elites. Powers distribution arguments would concur. For proponents of executive power, it would be difficult to explain the concurrence of Czechoslovakia's relatively weak executive and the strong legislative record.

My institutionalist argument as it is developed over the next two sections does not necessarily find the power distribution and the privatization outcomes incompatible. Hypotheses one and two are based on the assumption that the power-holders are the policy deciders. Czechoslovak executives were weak relative to their Hungarian and Russian counterparts. The underlying premise however is not static but dynamic. In this sense the Czechoslovak top leadership can be viewed as power maximizers competing to pursue multiple goals while working within institutional constraints.

Take for example, the decision to delay privatization. As noted, the delay is often used as evidence of executive weakness. President Vaclav Havel and Prime Minister Maria Cálfa decided to delay major decisions on economic reform and privatization until after the June 1990 elections to ensure the legitimacy of the new democratic regime. In comparison, Russia began legislating the preparatory laws by decree in October 1991 prior to its formal declaration of independence and the collapse of the Soviet Union. Hungary launched its privatization program immediately; it began the sale of enterprises with temporary laws decided within a month of its

founding elections. Although Poland is not being formally discussed as a case, it also illustrates the general trend for rapid decision making; the Polish reform leadership Leszek Balcerowicz began “shock therapy” during the interim government and prior to elections.

Rather than reflecting the weakness of the chief executive, the decision to delay highlights the power relations within the executive -- the chief executive’s relationship with the cabinet ministers with portfolio. This dispute constitutes an example of executive power in which the president and prime minister restrained Finance Minister Vaclav Klaus, who wanted to pursue the Polish model of shock therapy and begin privatization immediately.

However, Czechoslovakia’s subsequent pattern of lawmaking does appear incongruent with the argument that centralized executive power is a necessary and sufficient condition for effective lawmaking. For instance, following the June 1990 elections, Klaus still as Finance Minister and leader of the neoliberals, established his hegemony. The privatization programs -- large-scale, restitution, and small-scale followed within six months. In May 1990, the Czechoslovak government approved a schedule to launch voucher privatization. In June 1990 elections, the voters supported advocates of voucher privatization. In September 1990 the Federal Parliament approved voucher privatization as the main privatization method, and in February 1991, the Federal Parliament passed framework legislation.

### **3. Summary: The Limits of Centralized or Majoritarian Power Theses**

Centralized power in Hungary can be associated with a large number of initiatives that advanced privatization. Given Hungary’s prime ministerial system, the executive should have been able to consistently legislate and implement laws, promoting a coherent approach to the divestment of state-owned enterprises. The constitutional analysis specifically illustrated that the prime minister under certain conditions could assume both agenda-setter and policy decider roles.



A number of examples can be pointed to demonstrate the positive relationship between the majoritarian institutions and privatization policy outcomes. For instance, the Hungarian Prime Minister effectively drew upon his constitutional powers to legislate the Asset Guidelines, new laws governing the State Privatization Agency, Reprivatization, Self-privatization, the E-Loan Scheme among others temporary measures. Through the SPA, the government limited the access of stakeholder groups that perhaps contributed to its ability to conduct outsider privatization, keep the income structure equitable, and attract the largest share of foreign direct investment.

In Hungary, as in Russia, there are also some clear examples of the negative relationship that previously has been found between centralized power and policy outcomes (Hellman, 1996). For instance, the historical record shows that Prime Minister Antall used his appointments of privatization ministers without portfolio, appointments to SPA's governing board, and his discretion over individual property sales as patronage to control his party (MDF). Often these appointments were arbitrary and displaced ministers that were crucial to sustaining a policy direction.<sup>68</sup>

To summarize, Hungary's experience appears to support my contention that only isolated instances of privatization policy can be explained by the presence of an independent executive (the centralization of non-legislative powers) and the activist executive (the centralization of legislative powers). Other important aspects of Hungarian privatization remain unexplained.

Given the executive's legislative powers and non-legislative powers, why did it take two years to enact the framework legislation? Why did the Hungarian National Assembly at times delegate responsibility and at other times appear confrontational in its relations with the

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<sup>68</sup> See Yudit Kiss, "Privatization in Hungary -- Two Years Later," *Soviet Studies*, Vol 44. No 6.1992 pp. 1015-1038.

executive? Why did Hungary's privatization programs shift repeatedly during the Antall government?

Russia's experience is comparable to Hungary's to the extent that both countries had chief executives with a strong arsenal of legislative powers. In Russia, a number of presidential decrees serve as evidence of the positive relationship between the Russian president's activism and privatization outcomes. Presidential decrees regarding the large energy and raw materials monopolies also supply evidence of ways decree power can be used arbitrarily; these decrees contributed to Russia's future concentrated income structure. However, the Russian chapters also show that when executive power is embedded within the larger configuration of institutions, the outcomes looked quite different.

Czechoslovakia differs from both Russia and Hungary since its executive could not be classified as independent given the design of the confidence mechanism. The prime minister nor president could be considered dominant given the diffusion of legislative powers. In comparative perspective, policy actors within the executive appear relatively weak without decree or strong veto powers. Privatization legislation was enacted by statute giving the Federal Assembly increased leverage over policy. Nonetheless, the government was able to achieve its preferred policy outcomes on two of the most important pieces of legislation the Scenario for Economic Reform and the Large-Scale Privatization Act, among others.

To explore these unexpected patterns of actor behavior and policy outcomes, I examine the two other institutional constraints suggested in hypotheses three and four. In Hungary the two variables are (1) the Hungarian Constitutional Court and (2) the influence of the asymmetrical pattern of constitutional powers concentrated in the office of the prime minister on executive and legislative relations. In Czechoslovakia, the federal arrangements, the tricameral

voting rules and the Court do not appear as major factors. Therefore, the key variable to be explored is the symmetrical and even distribution of powers between the two branches.

#### **D. Executive Power, Institutional Constraints and Incentives**

This section explores first the importance of state format in Hungary and the ways that executive power may have been constrained by the Hungarian Constitutional Court. The Hungarian Constitutional Court asserted its prerogatives using its wide-ranging powers over both privatization and economic policy. In contrast, the analysis of Czechoslovakia highlights the rationalization of federalism and tricameralism. The Czechoslovak roundtable agreements excluded the two national assemblies and governments at the republic level from decision making. The workings of the Federal Assembly also were centralized by legislating bills in joint committees and sessions. Therefore, policy making was far more centralized than expected.

##### **1. Hungary: The Constitutional Court and Executive Power**

For many analysts of Hungarian transition politics, the constitutional court played a pivotal role in the politics of economic reform and served as a crucial guarantor of democratic rule.<sup>69</sup> Hungary's Constitution conferred upon the court judicial review.<sup>70</sup> The Hungarian Law on the Constitutional Court further specified and expanded its powers to review legislation.<sup>71</sup> Consequently, the court held the right of judicial review at three different phases of the legislative process: (1) prior to the submission of legislation to parliament; (2) during the deliberation of a bill, and (3) after the enactment of legislation. The court had advisory opinion review; it could even find the absence of legislation as unconstitutional.

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<sup>69</sup> Ethan Klingsberg, "Safeguarding the Transition, The New Constitutional Courts: Hungary," *East European Constitutional Review*, Vol. 2 No. 2 Spring 1993 p. 44.

<sup>70</sup> Ibid. p. 44.

<sup>71</sup> The Hungarian Law on the Constitutional Court, p. 1.

Unlike in Russia or Czechoslovakia, the Hungarian Constitutional Court became involved in economic reform policy and the definition of property rights. In addition, the activist court shaped executive action and privatization decision making in both the Antall (1990-1994) and Horn (1994-1998) governments. Indirectly, the Hungarian Constitutional Court shaped the economic transition through its decisions regarding executive institutions. Its decisions clarified issues that could have resulted in continuing dual executive dilemmas.<sup>72</sup> The court issued three decisions restricting the role of the president and thereby reaffirmed Hungary's status as a parliamentary rather than presidential democracy.

During 1990-1994, the court asserted its role as a check on the executive's policy agenda with its landmark decisions on property rights. The interpretation of the property clause of the Hungarian Constitution<sup>73</sup> was especially important since private property was virtually nonexistent for the previous forty years. The property rights decisions originated with the debate over restitution in the government, then in the National Assembly. In its first decision involving property, the court had to decide whether the government had the right to confiscate, without compensation, the property of cooperatives and to use that property in its restitution policy. In decision 21/1990 (X.4),<sup>74</sup> the Court struck down the government's attempt to confiscate assets of cooperatives stating that it violated Section 13 of the Constitution. Other decisions dealt with cooperatives and the use of vouchers for flats.<sup>75</sup>

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<sup>72</sup> Gero Barbaras "The Role of the Constitutional Court," Institute on East Central Europe, 1997. <http://www.ciaonet.org/conf/ece01geb.html>.

<sup>73</sup> Section 13: (1) The Republic of Hungary shall guarantee ownership. Section 13:2: Expropriation of property shall be allowed only exceptionally and for public interests, in cases and ways determined by law and with full, unconditional and immediate compensation.

<sup>74</sup> *Constitutional Court of Hungary, 1991*.

<sup>75</sup> The substantive issues over property concerned the assets of cooperatives and the selling of council (local government) housing. The theoretical issues focused on the extent of legal limitation on private property that is permissible without compensation.

Specific decisions made in the SPA regarding the privatization of Hungary's industrial privatization decisions did not come before the court.<sup>76</sup> However, the court's decisions with regard to restitution sent a strong signal to the prime minister and the other key ministers regarding its willingness to set limitations on government policy strategy. As a further demonstration of its willingness to intervene, the Hungarian Constitutional Court authored a landmark decision in 1995, in which it interpreted "social rights" guaranteed by the Hungarian Constitution. The decision meant that certain employment and maternity benefits could not be cut without due compensation. In a highly unusual move, the court struck down major portions of the Economic Austerity Package proposed by the Finance Minister Bokros. In this way, the Court largely modified the path of Hungary's economic restructuring.

So far the discussion of court's ability to constrain executive power stems from its expansive powers to shape legislation at different phases of the policy making process. However, the Court's initial involvement in property reform came in response to the Prime Minister Antall's use of its constitutional right to call upon the Court for a decision prior to submitting legislation to the National Assembly.

According to Ellen Commisso's account, the Prime Minister came under pressure by its two smaller coalition partners, the Smallholders Party and the Christian Democrats, to legislate the return of confiscated property after 1945 to its original owners.<sup>77</sup> The Prime Minister hoping to avoid having to submit the highly controversial restitution issue to parliament, sent it first to the Court hoping for a decision that would declare restitution as unconstitutional.<sup>78</sup> In response to

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<sup>76</sup> The "Guidelines for Operation" specifically outlined that these decisions could not be further appealed. Nonetheless, given the Court's right to receive appeal from individuals, it is interesting that these decisions were not brought up before the court.

<sup>77</sup> The Smallholders sought the return of land to peasants while the Christian Democrats sought the return of church property.

<sup>78</sup> Antall had signed an accord with his two smaller coalition partners in July 1990. In exchange the two smaller parties pledged their support to all other government initiatives.

the government, the court issued its first major property rights decision that declared the law as unconstitutional. The government's strategy set a precedent for drawing the Court into the political process of parliamentary enactment of laws.<sup>79</sup>

To summarize, the Hungarian Constitutional Court's willingness to exercise judicial review on contentious policy issues was evidenced with the restitution issue and the planned austerity program under the Horn government. Following the court's decisions, constraints on the exercise of executive power appear to manifest in the following ways. First, with its property rights decisions the Court narrowed the Antall government's policy choices, in doing so it signaled to the government that the government was not entirely free to legislate its preferred policy choices. Second, for future legislation, the Antall government had to anticipate the Court's possible response to a policy proposal, especially regarding economic reforms with their distributive implications for society. By striking down the 1994 Horn austerity plan, the court asserted that governmental policy would have to incorporate social safety nets. In addition, the court made it clear that any policy that diverted from the norms it set for distributive justice would be struck down. Third, the constitutional court used its power to shape the future of Hungary's parliamentary democracy.

Having considered the role of the court, the next section offers a more comprehensive institutional explanation for the government's two- year delay and its tendencies for policy instability. I incorporate the court's role as one among several possible actor interactions as structured by the executive-legislative pattern power distribution.

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<sup>79</sup> Six members of the neoliberal Alliance of Free Democrats (SZDSZ), the largest opposition party in parliament and opposed to restitution on the basis of economic principles, also submitted the new draft of the proposed legislation to the Court for an opinion.

## **E. Hungary: The Asymmetrical Single Actor Pattern -- Executive and Legislative Relations**

According to the analysis of Hungary's amended constitution, both the non-legislative and legislative powers were concentrated in the prime ministerial system. The pattern of executive and legislative relations can be described as an asymmetrical single-actor pattern. In comparison, Russia was a two-actor asymmetrical pattern, and Czechoslovakia was a two-actor symmetrical pattern. However, the wide-ranging powers of the Hungarian Constitutional Court and its subsequent relations with both parliament and the executive indicate a multilateral pattern of interactions between the three institutions. Consequently, two sets of relations could complicate privatization decision-making: the triangular relations that involved the court in issue areas related to privatization and the bilateral relations between the two branches.

To assess the impact of the executive/legislative power distribution variable on Hungary's privatization policy performance, this discussion begins by specifying the institutional incentives attached to Hungary's specific configuration of constitutional powers. To model the relationship, cost-benefit analysis of the concentrated powers is used to predict actor strategies. As in the Russian case, the Hungarian executive is viewed as a constrained, rational actor.

Specifically, identification of the institutional incentives helps make explicit when the executive or parliament may draw upon specific powers -- such as decrees, vetoes, amendment, or oversight. The incentives approach also highlights the consequences of the constitutional powers as they are deployed in a sequential process of decision making; it also suggests how interbranch interactions may lead to a cooperative, competitive, or conflictual policy ethos.

### **1. Hungary Institutional Incentives: Prime Ministerial Actions and Strategy**

In this section, I use cost-benefit analysis to evaluate the incentives tied to prime minister's and parliament's proactive and reactive powers. For the prime minister, the costs and

benefits tied to the use of decree power made ministerial decrees a low cost, low-risk, and high yield policy strategy. Strong incentives thus favored the use of ministerial decrees. Further, the legislative record documents that numerous decrees were used to conduct economic reform.

For the National Assembly, because the non-legislative powers were concentrated in the executive, it had few options to challenge the use of decrees. Even if the executive repeatedly uses a decree strategy to circumvent parliament, the National Assembly (unlike the Russian Congress of People's Deputies) can respond through protests, but it cannot easily resort to constitutional provisions to threaten removal of the prime minister or the government.

However, prime ministerial decrees were restricted to fill in for non-existing legislation; the prime minister could not override already existing areas of legislation. Hungary's pre-transition experiments with economic reform meant that the legal corpus of law overseeing many areas of economic reform already existed. In particular, when Antall came to power, standing legislation governed the institutional component of privatization, the State Privatization Agency (SPA) and its Guidelines for operation.

Nonetheless, the government set out to modify the existing laws in line with their conservative goals. In lieu of drafting new legislation, the government submitted revisions to the existing legislation to the National Assembly for approval. In May 1990 at the beginning of the transition, the government's strategy of legislative enactment by statute also appears to be low risk and a high yield proposition. The government had a 59.6 percent majority of seats in parliament. When time was at a premium, the government also could attach time limits to a bill -- another low risk strategy. Because a majority of the mps were from governmental parties, the likelihood of passage without a large number of amendments would be high.



The government's third option also appears low-cost, because of the constructive confidence mechanism. That is, conceivably, the government could attach a no-confidence vote to a bill to ensure passage. The constructive mechanism would reduce but not eliminate the possible risks. For instance, the strategy of attaching the no-confidence procedure would be costly if the government miscalculated its level of support in parliament or the degree to which party discipline was in force. Fourth, as already discussed, the government could submit a bill for judicial review prior to submitting it to the legislature to avoid a policy that it was reluctant to pursue. However, as the discussion of the government's interactions with the court over restitution illustrated, this strategy could be both high-cost, risky, and low-yield.

## **2. Institutional Incentives: Parliamentary Actions and Strategies**

The Hungarian National Assembly's relations to the executive as shaped by the concentration of non-legislative and legislative powers began as cooperative and evolved to competitive during the Antall administration. The sources of cooperation stemmed from the overall majoritarian type of governance system. In the National Assembly, the executive could count on its coalition for legislating its transition initiatives. However, it is also well-known that if a prime minister deviates too far from his party's position, he/she also could face opposition from his own party. In coalition governments, opposition on policy could emerge in the absence of a coalition agreement or strong party discipline. The Hungarian experience also demonstrates that the parliamentary parties can coalesce as an opponent to the unilateral exercise of executive authority. Although the struggle for control over policy and the executive never reached the dimensions that occurred in Russia, the tendency for the Antall government to operate without consultation offered strong incentives for the parliament to assert its authority and attempt to expand it.

As outlined above, there were strong incentives for the executive to pursue domination over the policy process. There is also extensive evidence that Hungary's prime ministers over the last decade have sought to expand their authority through various means. Likewise, there are several important examples where members of parliament and the constitutional court attempted to strengthen parliament's role. The major difference between Hungary and Russia concerns the means by which the National Assembly attempted to assert a more activist role over Hungary's policy direction and specific policies.

In Russia, the Congress of People's Deputies sought to change the rules of the game in terms of changing the regime type from presidential to parliamentary. In response to executive unilateralism, parliament used threats of impeachment of the president and calls for his cabinet to resign. The interactions between the branches turned the process into a high-stakes contest that threatened the transition itself. Hungary's constitutional rules precluded this type of risky constitutional politics by taking away parliamentary control over the executive. Instead there were strong incentives for parliament to respond to executive unilateralism through the normal processes of legislative decision making and oversight procedures.

In Hungary, parliamentary activism in normal day-to-day legislative activities came from the committees and their leadership. The committees acted as consultative, advisory, and control bodies of parliament. In addition to initiating legislation, committees could also submit amendments, and decide on motions put forward by committee members.<sup>80</sup> There also is evidence that supports the contention that individual mps and the standing committees generally strived to assert a stronger role in legislative decision making independent of the executive and partisan allegiances. For instance, organizationally there were several attempts "to broaden the

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<sup>80</sup> Country Report 1995, OECD/SIGMA

parliamentary committee structure as a source of greater influence by which they could concentrate on a problem area more publicly and openly.”<sup>81</sup>

Constitutionally, parliament’s interactions with the executive were framed by its reactive powers. The standing committees and members could initiate legislation but not challenge the executive’s policy agenda with alternative proposals. By contrast, with its reactive powers, parliament could shape policy at the margins and over time create uncertainty on the part of the executive regarding his control over the legislative process. Parliament’s role as a policy blocker also was enhanced by its constitutional right to refer a piece of legislation to the Hungarian Constitutional Court for judicial review. As the discussion below shows, referral to the court appeared to be a low-cost strategy with a high yield potential for parliamentarians to assume some control over policy on specific issues.

Taking each of the reactive powers in turn, parliament apparently relied on its open amendment rules as a means to shape policy decisions; during 1990 through 1993, 6,197 modifications were made to bills.<sup>82</sup> Although, the number of amendments alone does not tell us what percentage of the amendments were government initiated, it offers some evidence that amendments were an important means for parliamentary committees and members to strive for some autonomy in the policy process. The best example is the 1992 Restitution Act that included 60 amendments. The amendments represented an institutional logroll that included all the parliamentary parties which stood on different sides of the multifaceted issue. Likewise, parliament challenged the government’s decisions and performance by using interpellations and prime minister’s questions. Oversight and amendment powers were low cost and in repeated play potentially could tilt some decisions toward parliament’s preferred policy outcomes.

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<sup>81</sup> Gabriella Illonzksi, “An Almost Final Report: The Hungarian Legislature: From 1990 to 1993,” *Journal of Constitutional Law in Eastern and Central Europe* vol. 1 no. 51 1994 p.67.

<sup>82</sup> *Ibid.*, p.67.

To summarize, the government was powerful by virtue of its proactive legislative powers and independent of parliament because of the relative assurance of tenure imposed by the constructive no-confidence and collective responsibility principle. Parliament could respond but not lead through the use of amendments, interpellations, and questions. The National Assembly's limits were set by the premier's decree power, agenda setting instruments, legislative majority, and its ability to attach a vote of no-confidence to a bill. The executive's limits were set by parliaments' efforts to expand its authority in response to the exercise of executive power. Hungarian mps regardless of party were noted to complain about the executive's lack of ex-ante consultation.

### **3. Executive-Legislative Interactions and Privatization Policy**

In this section, I illustrate the ways executive and legislative interactions were shaped by institutional incentives. The examples focus on when the prime minister actions might be met by cooperative, competitive or conflictual policy responses from parliament. Institutional incentives between the two branches would be shaped by the concentration of legislative and non-legislative constitutional powers in the executive. In addition, to explaining incidents of parliamentary opposition to executive actions, the analysis is intended to provide a tentative explanation for the two-year delay in the legislation of privatization.

### **4. The Antall Government as Leader and Agenda-Setter**

Upon coming into power in May 1990, the Antall government's first decisions concerned the appointment of a cabinet to implement its policy goals that were formulated and featured as campaign promises in the previous electoral competition. As an agenda-setting instrument, cabinet appointment and dismissal with parliamentary approval was a low-cost and high-yield initiative for the prime minister. Cabinet positions were largely filled by members of the dominant party in the coalition government. Antall also rewarded the Smallholders Party the

portfolio over the ministry of agriculture. Since the Hungarian Democratic Forum and its two small coalition partners held the parliament majority, the approval of the cabinet was routine.

In June 1990, the Prime Minister legislated the first privatization laws of his administration. As noted, Antall could have chosen from the following strategies given his wide-ranging legislative powers - decree, statute, or statute with a vote of confidence attached to the bill. Of these, Antall chose the lowest cost strategy of simply sending the bills to parliament for approval. The prime minister could introduce legislation with some assurance that his control over the parliamentary agenda and committee processes would result in a swift and easy approval.

In addition, Antall chose temporary legislation over permanent framework laws. According to previous legislation, only the parliament was mandated to authorize the direction of Hungary's privatization through the SPA guidelines. The Temporary Asset Guidelines outlined the privatization methods, the future form of Hungary's economy in terms of the mix of public and private, the companies targeted for privatization, and the beneficiaries of privatization. Ostensibly, because the guidelines were temporary and required annual approval, parliament was willing to give the executive the benefit of the doubt and approve the program in total. However, the longer-term willingness of the parliamentary opposition parties was based upon the program's ability to generate the necessary budgetary revenues and privatize enough of the economy to accomplish the transformation to a market economy.

## **5. Restitution: Multilateral Interactions -- the Prime Minister, Parliament, and the Court**

Following the enactment of the first privatization laws, the government had hoped to continue with its agenda for large-scale privatization by authoring a formal program and submitting to parliament framework laws. However, the prime minister turned away from his

priorities as he increasingly came under pressure from his coalition partners to legislate restitution policy. The initial interaction in the restitution case was within the cabinet between the prime minister and its smaller coalition partner. The government had signed a July 1990 accord with the Smallholder's party to legislate restitution in exchange for its support on all other issues. As already noted, instead of submitting the restitution legislation to parliament or issuing a decree, Antall opted for a delegation strategy by going to the constitutional court prior to submitting legislation to parliament.

Restitution legislation thus began with political issues related to holding together the government's legislative majority. The executive's choice of strategies propelled it into becoming a larger constitutional issue. The Hungarian Constitutional Court converted the legislative process of restitution laws into a sequence of multilateral institutional interactions that were linked to attempts to enhance parliamentary authority. The most important concerned an appeal by the parliamentary parties to the constitutional court once the bill had made it to the floor of the parliament. The opposition parties were neoliberal in orientation and highly opposed to restitution in principle. A simple interpretation of these events could be that the opposition parties were attempting to block restitution. However, a plausible argument also can be that the opposition in calling for judicial review in the middle of the legislative process were trying to achieve two objectives. First, the restitution issue appears to have prompted all the parliamentary parties to coalesce and signal to the executive their willingness to stall legislation as a strategy to limit executive unilateralism. Second, by asking the court for a constitutional decision, the parties appeared to be using this resource as a means to expand parliament's role as a veto actor in the legislative process. In this instance, the court shunned the move stating that it would not act upon legislation that was in progress.<sup>83</sup>

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<sup>83</sup> President Arpad Gonz also exploited the situation to explore his right to send legislation to the court as a means to expand his veto power. In this instance, the constitutional court issued an opinion on property

## 6. Large-scale Privatization Framework Laws and Issues of Executive Credibility

Another explanation for the Antall government's delay concerns its use of decrees to conduct alterations in policy. During the two-year period when restitution was under consideration, the government also was implementing large-scale privatization. The divestment of the large industrial enterprises was accompanied by some successes. However, the program also was encumbered by the slow pace of privatization. The government had micro-managed the process of divestment and each transaction had prime-ministerial approval.

The Hungarian National Assembly gave a boost to initiating privatization in 1990 and again in 1991 when it abstained from major changes in the temporary Asset Guidelines. Once the flagship program involving the country's blue-chip firms began to falter, followed by a general slowdown in divestment, parliamentary acquiescence was not a given. As noted in a number of accounts, the government's indecisiveness regarding the privatization of major enterprises prompted the two-year delay in legislating permanent large-scale framework legislation.<sup>84</sup> The reason is that even with a parliamentary majority, the mistakes prompted a reluctance on the part of mps to automatically further support government initiatives.

In addition, the evidence suggests that the relations between the executive and parliament became increasingly competitive. Conflict was not expressed as outright confrontation as in Russia, but took the form of increased scrutiny of the effectiveness of executive policy.

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rights but did not strike down the law.

<sup>84</sup> Janos Palotas, member of parliament and the head of National Association of Entrepreneurs in an interview to the press notes that the problem with the privatization of the state-enterprises did not stem from "the absence of legal rules, lack of interest by investors or a shortage of financial resources that impedes Hungarian privatization. It is the state itself that vetoes concrete privatization initiatives.... The major political parties in the governing coalition and in the opposition claim that large-scale privatization in general is a top priority, but at the same time they raise doubts about every state company to be privatized. As a consequence of this approach, there is only a single large privatization package proposed by legislation that has the support of the Parliament: leasing rights for retail shops."

Illonski's (1994) research on the National Assembly's record regarding interpellations, and questions indicates that parliament was consistently activist in terms of all parties asserting some resistance to prime ministerial rule (including parties in the prime minister's ruling coalition).

#### **F. Czechoslovakia: Symmetrical Two-Actor Distribution**

The Czechoslovak case offers the opportunity to examine executive strategy as shaped by the even distribution of power between the branches. In Czechoslovakia, the symmetrical and even distribution of the non-legislative and legislative powers should contribute to cooperative interactions between the branches. The account offered here confirms the tendency toward inter-branch cooperation. However, contrary to the spirit of cooperation Lijphart (1984) associates with consensus institutions, the even power distribution also contributed to competitive relations between executive institutions and the Federal Assembly.

In the next section, to model the relations between government and parliament, cost-benefit analysis of the symmetrical power distribution is used to identify the institutional incentives that are expected to guide the interactions between the branches. The Czechoslovak president, prime minister, and governmental ministers are assumed to be constrained rational policy seeking and office seeking actors. While weaker than their counterparts in Russia and Hungary, actors in the executive and parliament also could be assumed to be power maximizing in their pursuit of their preferred policy objectives.

#### **1. Institutional Incentives Guiding Prime Ministerial Actions and Strategy**

The analysis below considers first the institutional incentives tied to the constitutional powers. The powers are grouped in terms of their proactive and reactive strategic value. In comparison to Hungary, the Czechoslovakian prime minister's proactive powers appear highly



constrained; they included cabinet appointment powers, primacy over the definition of transition policy agenda, the initiation of legislation, and attaching a no-confidence vote to executive bills.

First, in appointing and dismissing the cabinet, the prime minister had to attain parliamentary approval for the cabinet and individual ministers. In December 1989, June 1990, and June 1992, parliament gave the executive a great deal of latitude for asserting control over the cabinet. However, in the formation of the first postcommunist government there were strong incentives for the executive to appoint a cabinet that broadly reflected the partisan composition of most parliamentary parties. By forming a Government of National Understanding, and then applying similar principles of inclusion with the formation of the Civic Forum government, the top leadership signaled that the executive would pay heed to the imperative of working in close cooperation with parliament.<sup>85</sup>

The cabinet appointment and dismissal powers -- when following an inclusive ethos expressing the partnership between the institutions in the solution of transition problems -- were a low cost strategy to the government. However, the partisan mix of cabinet ministers opened up the potential for cabinet ministers with portfolio who could author policies with conflicting objectives. As predicted of coalition cabinets, in the Czechoslovakian Government of National Understanding heated competition ensued among the ministers in charge of economic reform and privatization.

Second, the distribution of proactive legislative powers also reflects the power-sharing institutions. However, the executive was advantaged regarding the agenda-setting powers. Both President Vaclav Havel and Prime Minister Maria Cálfa's exploited their control over transition

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<sup>85</sup> The only exception was the exclusion and marginalization of anti-system parties that had strong ties to the previous regime. See Mitchell Orenstein, *Out of the Red: Building Capitalism and Democracy in Post-communist Europe*, Doctoral Dissertation 1996

agenda by promoting a “socially conscious” policy agenda in the arena of public opinion, and in parliament. The prime minister’s ability to attach a vote-of-no-confidence to bills also should have increased the executive’s bargaining leverage. As previous experience in Western European parliamentary systems has shown, this power falls into the category of a high yield strategy but carries with it some risk. In introducing electoral costs, the premier would be raising the stakes of policy competition. At the same time, parliament may be likely to submit to this executive blackmail strategy. To enter into a confrontation with the government, the Federal Assembly equally would face electoral costs since bringing down the government also would result in new elections.

Other than the confidence blackmail strategy, once a piece of legislation was submitted to parliament, the executive did not have significant leverage in parliament to ensure passage. The prime minister did not have decree power as could be found in Russia, unanimous consent agreements as in the U.S. Senate, the guillotine and block voting as in France, or the right of the government to propose final amendments as in Italy.

On many transitional issue areas, the Federal Assembly and the government shared similar views. However, even in areas where most politicians held a consensus there were some areas of disagreement. Thus the agenda-setting powers reduced but did not eliminate uncertainty in legislating bills. Collective action problems also were not out of the question given the tricameral structure of the federal assembly and the rules of operation governing committees.

## **2. Institutional Incentives: Parliamentary Actions and Strategies**

Czechoslovakia’s Federal Assembly held the sole responsibility for the enactment of all legislation. Because the executive did not possess decree power with the force

of law, the policy deciding role of parliament was enhanced. Privatization policy making would benefit since there appears to be well-defined division of labor; each branch appeared to have an equal role in the process of policy formation. Thus, it would be expected that institutional incentives would preclude competitive interactions between the two branches since attempts to jettison the executive's privatization policy strategy would be high cost and low yield.

The Federal Assembly's reactive legislative powers included amendment and oversight. In terms of its rules of operation, the committees and the committee leadership were chosen according to proportional rules. Changes to legislation in the Federal Assembly were guided by open amendment rules. For parliament, there may be an incentive for its members to engage in the unrestrained use of amendments; the amendment process would decrease its policy loss costs and the final form of a bill would incorporate the preferences of many of its members.

### **3. Summary**

The institutional incentives approach to the dynamics of Czechoslovakian governance supports previous research in noting that two major sources of conflict were removed from the politics of economic reform. First, the non-legislative powers as designed appear to enhance the interdependencies between the branches with the normal confidence vote and shared responsibility for cabinet appointment and dismissal. The institutional incentives dampened tendencies toward high stakes strategies regarding the survival of the executive as were observed in Russia as a feature of Czechoslovakian politics of economic reform. In Hungary, the incentives toward using a no-confidence blackmail strategy were dampened because of the constructive vote of confidence that it made it difficult to change the prime minister and government. However, this mechanism also contributed to the perception of a unilateral policy style on the part of the executive.

Second, and closely related, the Czechoslovak executive did not hold the constitutional right of decree power with the force of law or control the legislative majority that could give rise to claims of exclusionary politics. In Russia, the use of decree power with a legislature frustrated by its inability to control the cabinet or policy led to confrontational politics that contributed to policy loss costs when it came to the final reading of the 1992 State Privatization Program. In Hungary, the executive's use of decrees and lack of consultation with parliament when he did seek statutes placed the full responsibility for policy mistakes in the hands of the prime minister. Policy failures created incentives on the part of parliamentary parties to coalesce, to use its oversight mechanisms that highlighted governmental mistakes, and to not automatically endorse the government's framework legislation.

The discussion below begins with the assumption that the initial political conditions for legislating economic reform and privatization were more favorable than in Hungary or Russia. Despite the executive's relatively weaker constitutional legislative powers, it is expected that the president, prime minister, and ministers could turn to less riskier strategies including negotiated bargains.

#### **4. Executive-Legislative Interactions and Privatization Policy**

As in the Hungarian case, the following section offers some historical examples how the institutional incentives that guided executive and legislative interactions may have affected the sequential process of privatization decision-making. In contrast to the Hungarian case, the empirical examples focus on when the prime minister actions might be met by cooperative or competitive but not conflictual policy responses from parliament. Unlike in Hungary or Russia, the executive does not have a legislative majority or decree power, therefore the expected policy

outcomes could include either change of policy status quo, a negotiated policy solution or no change.

The discussion of institutional incentives above described a policy context that reflected a more or less level playing field between the two branches. The analysis below is intended to highlight why cooperation or gains from exchange solutions may occur even when highly distributive policies are being considered. The following sections also provide a tentative explanation for the Czechoslovakian government's two crucial legislative successes, the Scenario for Economic Reform and the Large-Scale Privatization Law.

### **5. Multi-Actor Agenda-Setting**

. Using agenda setter theory and the rational actor assumption to model institutional incentives guiding interactions among actors may in part explain the social liberal compromise and the corresponding privatization program. In the agenda setter model, the President Havel and Prime Minister Čalfa set the direction for economic reform policy resulting from their status as leaders/dissidents during the communist era, their new legitimacy as the first democratically elected officials, and their constitutional right to shape the legislative agenda.

The expectation from a leader-follower perspective is that most if not all of their legislative program may have a better than 50-50 chance of being approved in part or totally. . Following, the transition in December 1990, Havel and Čalfa made several crucial decisions that would shape future events. First, they appointed the Government of National Understanding. Although they both held strong social-democratic views, they appointed a range of political forces including neoliberal Vaclav Klaus as Finance Minister. Social Democrat, Deputy Prime Minister Václav Komárek was assigned to head the four ministries governing economic reform. Second, the leadership decided to wait until after the elections prior to making major

decisions regarding whether Czechoslovakia would follow a radical or gradualist course of economic reform. The two decisions provided the context for competition over reform policy within the cabinet between Finance Minister Klaus and Deputy Prime Minister Komárek.

For the next six months within the cabinet, Klaus and Komárek competed for control over the design of the economic reform and privatization programs. Klaus aggressively sought to share the agenda-setting role with the president and prime minister. To this end, Klaus gave numerous interviews to the Czechoslovak press. Prior to the June elections, in which he was running to keep his parliamentary seat, Klaus traveled throughout Czechoslovakia to advance his electoral ambitions and to promote his radical neoliberal solutions as the best means for the country to achieve its key goals -- Czechoslovakia's return to prosperity and to Europe.

Consequently, Klaus won the policy competition over Komárek with only the status and role of Finance Minister. Throughout the postcommunist world, finance ministers were expected to play a pivotal role in economic transformation. However, Klaus's influence went far beyond his constitutional powers. Klaus's large electoral victory in the June elections, also brought into parliament a sizeable contingent of neoliberals that were to become Klaus's Civic Democratic Party.

Klaus's capture of the policy agenda only in part explains why neoliberal policy became a dominant but not predominant feature of Czechoslovak reform policy. For instance, it is well-known that Klaus personally wrote a highly detailed plan for privatization along with other neoliberals in the Finance Ministry. In addition, from all accounts Klaus refused to compromise on any portion of plan for privatization or economic reform.

Using a power-based perspective, it is reasonable to argue that the more majoritarian features in the constitution helped to decide the social-liberal compromise. The executive

including President Havel, Prime Minister Cálfa, and the Deputy Prime Minister Komárek charged with economic reform preferred gradualist privatization. The Chairman of the Federal Assembly, Alexander Dubcek, and Chair of the House of the People, Milos Zeman, also advocated this policy direction.<sup>86</sup> The president and prime minister's prominently used their role, stature and constitutional agenda setting instruments to argue for their social policy. Klaus tried persuasion and mobilization strategies for the first six months. Once Klaus became politically ascendant, he increasingly took the offensive to achieve his preferred economic and privatization policy. However, Klaus, Havel and Cálfa sought to settle the dispute prior to the submission of the Scenario of Economic Reform to the National Assembly.

For the president and prime minister, the upcoming elections also brought some uncertainty as to their future role. For all sides including Klaus, there were strong incentives to agreeing to an intragovernmental accord prior to the submission of the Scenario for Economic Reform to parliament. The submission took place just prior to the June 1990 electoral contest. Conceivably, the upcoming elections required all sides to show that the government had made progress in developing concrete proposals and a general plan for economic transformation.

There were also strong incentives issuing from recent instances of parliamentary behavior. Contrary to expectation, the leadership of the Federal Assembly stood ready to engage with the executive in further competition over the direction of economic reform. Regarding privatization, the Chair of the House of the People, Milos Zeman had commissioned no less than five prestigious research institutions to present to parliament policy alternatives.

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<sup>86</sup> Havel, Cálfa, and the social democrats advocated the use of asset sales and multiple methods for privatization, some preferential property transfer to labor and management, and an institutional component to allow for continued state intervention. In opting for a socially-conscious reform, their priorities also focused on the general welfare of the population. Labor, welfare, and social policy were accorded greater priority than the mechanics of economic transformation. This included dealing with the costs of reform including unemployment, housing, and job creation as well as other social safety nets.

All the actors in the executive were united in their support of the bill. Multiple tries on the part of the legislature to outflank the executive (Klaus's neoliberal policies ) failed. Consistently, legislative alternatives proposed either by the legislative leadership or committees appeared unsatisfactory. After winning the support of President Havel for the neoliberal Scenario for Economic Reform, most partisan battles had been settled so that Zeman's efforts never posed a serious challenge and appeared superfluous.

To summarize, generalizing policy outcomes from the consensual dimension of institutions only partially explains Czechoslovakia's forceful privatization. However, understanding how these institution constituted the rules of the game illuminates the ways the institutional context generally supported policy change. The stylized facts of the Czechoslovak case support an efficiency interpretation of institutions. However, it could be argued that the institutional incentives that resulted from balanced powers distribution dampened conflict and promoted cooperative relations between the executive and parliament. Partisan conditions as discussed below also were supportive. Furthermore, the assertion of executive power on the part of Havel (e.g., rather than by Klaus) appeared pivotal to securing parliamentary approval.

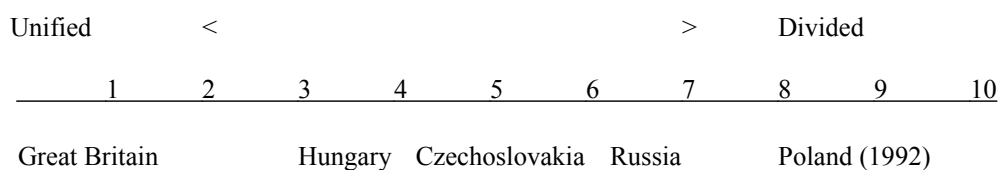
In part, Klaus's mass voucher privatization prevailed because it charted a clear transition from the communist past to the capitalist future. However, Klaus, clearly was power-maximizing, rational actor. An argument can also be that the consensus institutions induced Klaus to opt for a pragmatic as to an ideological approach to policy making. The executive was stronger than the legislature as agenda-setter. Without a legislative majority the executive always was forced to anticipate legislative opposition. The Federal Assembly could liberally change policy through amendments but also veto them through legislative voting. However, its actions were tempered because the executive could use its position and popularity with the public to gain leverage for its preferred policies.



#### IV. Unity of Purpose: Partisan-Coalition Explanations of Privatization

The purpose argument draws upon theories of institutions that suggest that the role of stakeholders and other socioeconomic interests were constrained by the new electoral mechanisms. As outlined in Chapter 4, in Russia these groups shaped policy as political parties within parliament, and thus their chances of changing policy stemmed from a complex set of variables including the parliamentary setting in which they operated. In Hungary and Czechoslovakia, analysis of the political parties in several major studies indicate that enterprise managers and labor unions were associated with small non-relevant parties that had won a small percentage of seats in parliament.

The unity of purpose variable is defined as the optimum set of *partisan* conditions for attaining stable, effective collective decisions. To measure the potential for creating winning legislative coalitions, three indicators were used that include the effective number of parties to estimate fragmentation, an index based on Sartori's schema for polarization (when specific data for policy distance) was not available,<sup>88</sup> and intra-party instability<sup>89</sup>.



**Figure No. 5.2: Unity of Purpose Continuum**

<sup>88</sup>For both Hungary and Czechoslovakia, I used Sartori's data for policy distance. To supplement, the index and to construct the possible dyads that were likely to form coalition, I used data from Kitschelt et al.'s (1998) research. Kitschelt unlike Sobyianin does not roll-call votes to ascertain policy distance but conducted surveys based on sympathy scores. See Herbert Kitschelt, Zdenka Mansfeldova, Radoslaw Markowski, and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Interparty Cooperation*, (Cambridge: Cambridge University Press, 1999) pp. 352-374.

<sup>89</sup>The data for policy distance comes from Kitschelt et al's 1998 study.

Following Kitschelt (1998), I used a supply-demand version of positive theory to address the need for coalition building and the formation of legislative majorities necessary to enact privatization. Countries with majoritarian electoral rules are expected to be accompanied by a low demand for inter-party cooperation since the leadership enjoys legislative majorities manufactured by the electoral system. For countries with proportional representation rules, the second strategy of coalition building often becomes necessary.

The scores on the purpose variable represents the potential supply of inter-party cooperation. Four types of coalitions to construct legislative majorities are possible, unfeasible (no coalition forms), crisis, case-by-case, and stable. Countries with scores within the range of 1-4 have favorable conditions for stable coalitions; scores between 5 through 6 predict governing through case-by-case coalitions, and scores between 6 to 7 predict the formation of crisis coalitions along with temporary case-by-case alliances. Scores above 7 predict the formation of crisis coalitions or the inability to form coalitions.

Given this background, some predictions can be made for Hungary and Czechoslovakia as in the Russian Federation.. In Russia, the demand was always high especially because the president often had to submit legislation to parliament for approval. Russia's score of 6.5 reflected moderate levels of fragmentation, high levels of instability, and moderate polarization prior to July 1992 and thereafter. As expected, Russia's opportunities for forming winning coalitions were found when the score did not go above this level. Russia's fluctuating partisan conditions also led to the emergence of a range of coalition types including stable, case-by-case, and crisis.

The comparative exercise below is carried out in three sections. In the first section, the findings on Hungary and Czechoslovakia's three indicators of party system formation are outlined. Using these indicators, the second section evaluates each country's demand for inter-party cooperation -- the potential supply of coalitions as well as the observed outcomes. In the third section, a sketch of each country is presented linking partisan conditions to privatization outcomes.

Chart 5.3 below outlines the expected causal pattern and policy outcomes beginning with the type of electoral system. Hungary's electoral system and party system characteristics fit the third category. Therefore, the expected outcomes include legislating through partisan powers that compliment the constitutional arrangements that centralize power in the executive. The executive also should be able to engage in further coalition building given the low levels fragmentation, instability, and polarization. Czechoslovakia's proportional electoral system falls into the second category. Given that its party system development resulted in moderate pluralism, the leadership should be able to govern or enact legislation through stable coalitions.

**Chart No. 5.3: Electoral Rules: Two Paths to Legislative Majorities**

Extreme Consensus PR	>	Polarized Pluralism	>	Interparty Conflict Poor coordination	=	Policy status quo
Moderate Consensus PR	>	Moderate Pluralism Low fragmentation Stability	>	Winning coalitions Interparty cooperation	=	Policy Innovation Low-cost bargained Agreements
Majoritarian Formulas	>	Partisan Powers	>	Low pluralism Low fragmentation Stability	=	Policy Innovation Top-down imposed

## **A. Czechoslovakia's Electoral System: The Demand and Supply for Inter-party Cooperation**

Czechoslovakia's electoral institutions complimented its consensual institutional arrangements on the constitutional level. A proportional representation electoral system was introduced to permit the representation of multiple political forces. The proportional representation electoral rules also meant that the prime minister never held a legislative majority. This created a high demand for inter-party cooperation and the need to forming winning coalitions to construct legislative majorities. The next section examines party system development to assess the coalition potential and the types of coalitions that were possible.

### **1. Proportional Representation and Party System Characteristics**

Czechoslovakia's first free elections since 1946 were held in June 1990. The proportional system with electoral thresholds gave rise to a nascent multi-party system. Broad-based democracy movements rather than parties came into power. In the Czech Republic, *Civic Forum* appeared in late 1989 as a spontaneously established movement type and elite-driven catch-all party based on a distinct anti-communist ideology. In Slovakia *The Public Against Violence* emerged as a "pragmatic coalition" consisting of former dissidents, ecologists, artists.

### **2. Fragmentation**

Electoral outcomes in 1990, 1992, 1996, and 1998 were consistent with proportional representation rules that include a complex threshold system and low district magnitudes. The electoral mechanism successfully limited fragmentation levels.<sup>3</sup> The country also was divided into twelve districts (eight in the Czech Republic, four in Slovakia) with 13-41 seats per district.

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<sup>3</sup> Multiple thresholds were imposed on the pure party list system; a 5 percent threshold was imposed on every party, movement or coalition. In 1992, the rules were made even more restrictive; 5 per cent for parties, 7 percent for coalitions of two or more parties and 10 percent for larger coalitions. Proportionality also was modulated through the choice of district size.

The large number of seats per district had the effect of increasing proportionality in seat distribution. In combination with the high electoral threshold, the result was to reduce the number of parties in parliament.<sup>4</sup>

The effective number of parties indicator of fragmentation in parliament shows that semi-proportional representation system helped to achieve a greater concentration of political forces. Following the June 1990 elections, the effective number of parties (EFN) for the Czech National Council is 2.22 parties while the EFN for Slovakia 4.98. In the Federal Assembly nine parties passed the threshold. Nonetheless, the EFN for the Chamber of the People was 4.04, and 5.24 in House of the Nations.

Consistent with party system formation, there was a significant spike in the EFN beyond moderate levels beginning in the spring 1991. Extreme fragmentation accompanied the breakup of the major movements that began in late 1990. Fragmentation did not hit a high point until the spring of 1991, but did not decline as of the 1992 elections. The number of Czech parties in parliament increased from four to nine. In Slovakia, there were 8 parties. By April 1991 the EFN for the House of the People increased to 10.9.

The June 1992 elections for the Federal Assembly could have sustained the high levels of party fragmentation. However, “the velvet divorce” involving the separation of the Czech and Slovak Republics into independent states changed the dynamics of party formation. The Federal Assembly from June onward no longer served as a policy center. Instead, issues regarding the sustainability of privatization were taken up at the republic level. In the Czech Republic, the National Council became the primary area of legislative activity; the EFN was a moderate 4.8.

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<sup>4</sup> David M. Olson, "The Experience of the Czech Republic," in Karen Daiwasha and Bruce Parrott eds. *The Consolidation of Democracy in East-Central Europe* (Melbourne, Cambridge and New York: Cambridge University Press, 1997) p.155.

### 3. Intra-party Instability

Two major phases of party instability (changes in identity, and membership) characterized Czechoslovak party development. The first phase (December 1990 and April 1991) was associated with the breakup of the movements Civic Forum and Public Against Violence. The reconfiguration of the factions within these movements into parliamentary clubs gave rise to the future form of the party system. Unlike in Russia, changes in membership and identity followed a more predictable pattern. Some parties were fluid and failed to establish strong organizations. The relevant parties that led the transition followed West European models and consolidated into strong political parties.<sup>5</sup> Three parties emerged from Civic Forum. Of the three, two became the core right wing parties, the Civic Democratic Party and the Civic Democratic Alliance. One party, the Civic Democratic Movement failed in future electoral competition.

The second phase of party instability came after the 1992 elections in the Czech Republic. The left wing parties in opposition to the government underwent transformation. As David Olson (1997) reports, “the communist party split, the nationalist party lost members, and the loose and heterogeneous electoral coalition LSU also split. The Moravian-based party (MSDMS) changed names and membership several times. Among the opposition parties, only the Czech Social Democrats gained parliamentary members and also gained in the public opinion polls.”<sup>6</sup>

Some changes also took place within the four government parties. The Christian Democrat Party decided to merge with Klaus’s Civic Democratic Party; in the merger process the Christian Democratic Party itself divided into two different parliamentary clubs. However,

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<sup>5</sup> David M. Olson, "The Experience of the Czech Republic," in Karen Daiwasha and Bruce Parrott eds. *The Consolidation of Democracy in East-Central Europe* (Melbourne, Cambridge and New York: Cambridge University Press, 1997) pp.154-155.

<sup>6</sup> Ibid.

Czechoslovakia avoided a major realignment of anti-reform parliamentary parties that occurred in Russia. Instead, the process of party formation yielded a slight increase in the strength of the government coalition, the emergence of a number of independents, and a series of splits among opposition parties.<sup>7</sup>

#### **4. The Political Spectrum and Polarization**

Czechoslovakia's party system characteristics fit with Sartori's (1976) category of moderate pluralism. In Czechoslovakia, anti-system parties were present, but using Sartori's criteria they were not "relevant." Anti-system parties are expected to influence politics if they poll more than 15 percent. In the 1990 elections, the communists in both the Czech and Slovak Republics won an average of 13 percent of the vote.<sup>8</sup> The Slovak Nationalist Party won 11 percent of the vote. During 1992 elections, the communist Left Bloc won 14 percent of the vote while the nationalist Republican Association won only 6.5 percent. As such, the communists and nationalists did not have the seats in parliament nor the capacity to influence the political competition.

Moderate pluralism also is characterized by a bipolar governance pattern. The bipolar pattern of competition is identified by the duality of alternating coalitions among a plurality of parties. Following the 1990 elections, the bipolar pattern had yet to manifest since the party system was still undifferentiated. Nonetheless, the major partisan actors who were to structure transition politics came from the center-right and center-left factions within the Civic Forum and Public and Violence movements. When these movements split, the pattern of two blocs lining up

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<sup>7</sup> David M. Olson, "The Experience of the Czech Republic," in Karen Daiwasha and Bruce Parrott eds. *The Consolidation of Democracy in East-Central Europe* (Melbourne, Cambridge and New York: Cambridge University Press, 1997) p.157.

<sup>8</sup> The National Front of the Czechoslovak Socialist Republic (Národní Fronta CSR) Communist party ruled Czechoslovakia from 1948 to 1949. The CSR gave rise to four successor parties including farmer's organizations and a trade union. During the early to mid-1990s, they never won more than minority status in parliament.

behind social democrat versus neoliberal parties became the dominant pattern. Following the 1992 elections, the parties who won electoral victory for a four-year term again aligned into the pattern of governing parties and opposition.

In Czechoslovakia, the policy competition centered on the economic dimension. Markowski's (1997) factor analysis finds that competition around economic issues was stronger in the Czech Republic than in all the other East European countries. The Czech path of transformation as Markowski (1997) writes "involved liberal i.e. a non-interventionist approach to consolidation which restricts the role of the state to setting the institutional basis for a private economy and the spontaneous emergence of market forces."<sup>9</sup>

### **B. Hungary's Electoral System: The Demand and Supply for Inter-party Cooperation**

Hungary's majoritarian electoral law is modeled on the German Additional Member System and the French double-ballot system. Elections involve single-member districts with the two round run-off and a party list vote. The single-member district (SMD) tier rewards the first-place party.<sup>10</sup> Proportionality, however, is not entirely eliminated. As a result of the mixed system, Hungary has a multiparty system instead of a two party system typical of majoritarian democracies. Since 1990, the multiparty system has consistently permitted six parties to win parliamentary seats.

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<sup>9</sup> Radoslaw Markowski, "Political Parties and Ideological Spaces in East Central Europe," *Communist and Post-Communist Studies* 1997 Vol. 30 No. 3 p. 235.

<sup>10</sup> Almost half the seats (176) are apportioned through two-round elections in single-member electoral districts. A maximum of 152 seats then are awarded through the proportional allocation of votes using closed party lists in the 19 historical counties and Budapest. National lists serve a compensatory function in the system, generally rewarding the second- and third-largest parties. The territorial lists reward the fourth, fifth, and sixth parties, permitting them to pass the threshold and obtain parliamentary representation.



Coalition government also has been the norm rather than single party governments. The type of coalition government also has varied. In 1992, the Antall government formed an oversized cabinet to bring the Democratic Forum's majority closer to the two-thirds requirement necessary for constitutional amendments. Therefore, more parties were included in the coalition than necessary to govern. In 1994, the Horn government won a victory that gave it a sixteen seat majority in the National Assembly. However, the Hungarian Socialist party (social democrats) opted for a bare majority government. Their coalition partners were the neoliberal Free Democrats. Subsequently, the next two cabinets also were coalitions.

### **C. Majoritarian Electoral Rules and Party-System Characteristics**

Hungary's leadership did not rely on post-election coalition building because for the most part, the system manufactured parliamentary legislative majorities. However, Hungary's leadership at times required another coalition pattern to achieve dominance in parliament over regular legislation such as privatization. Therefore, coalition formation took place prior to the election. The findings below on the three parameters of party system formation, indicate that a supply was available given the number of possible dyads willing to form coalitions

#### **1. Party System Fragmentation**

The Hungarian electoral system was designed to facilitate the transition from communism by adding strong legitimacy to the parliament, but also to prevent the fragmentation of the legislature into small parties. The electoral system's built-in disproportionality consistently has delivered wins to the larger parties, while discouraging smaller parties without a strong organizational base (Rady, 1995). For instance, in 1990 20 parties competed, but only six won seats in parliament. In 1994, 29 parties placed candidates before the voters, but still only six parties passed the threshold to win seats in parliament. By calculating the effective number of

parties, the findings show that Hungary's EFN resulting from the 1990 elections was 3.78. Similarly in 1994, it remained low at 2.9, and in 1998 it was 3.45.

As in Czechoslovakia, fragmentation occurred as part of the process of party formation. Between 1990 and 1994, several new parties emerged from the first parliamentary parties; this phenomenon especially characterized the governing parties. The Hungarian Democratic Forum (HDF) underwent transformation when fringe members left to form new parties (the Hungarian Justice and Life Party (MIÉP) and the Market Party). The Smallholder Party (FKgP) left the governing coalition, splitting into five groups; however, thirty-five FKgP representatives remained in the coalition as a parliamentary faction. By the spring of 1994, several other parties were formed and raised the number of parliamentary parties to fifteen. All of the new parties, however, remained outside of parliament not having passed the threshold in 1994 elections. Six parties entered parliament as in 1990, and seven parties in 1998.

## **2. Intraparty Instability**

Changes in party membership and identity while present were limited. The Hungarian Democratic Forum (HDF), the dominant governing party in 1990 initially was divided between left-wing liberal pragmatists and right-wing nationalist conservatives. HDF reconfigured with the expulsion of the extremist national faction led by István Czurka; HDF then divided among Christian democratic, national liberal, and populist forces.

The market-liberal party, the Alliance of Free Democrats also splintered, realigned, and reunified. However, until 1998 the Free Democrats were an effective advocate of policy alternatives including radical privatization. The League of Young Democrats (skilled lawyers and economists) offered the most dramatic example of transformation in terms of membership and identity. For three years, the Young Democrats were able to hold together as a unified

parliamentary caucus. But, low levels of public support led leader Viktor Órban to remold party's image "from that representative of young people and their grandmothers" to a mainline right-of-center liberal party.

**Table 5. 9: Hungary Changes in Party Composition of Parliamentary Seats**

Party	May 2 1990		December 1 1992		July 1 1993	
<i>Coalition Parties</i>						
Hungarian Democratic Forum (HDF)	165	42.7	159	41.2	138	35.8
Smallholders (FKGP)	44	11.4	36	9.4	36	9.4
Christian Democrats (KDNP)	21	5.5	22	5.7	23	6.0
<i>Opposition Parties</i>						
Alliance of Free Democrats	94	24.4	85	22.1	85	22.1
Hungarian Socialist Party	33	8.5	33	8.6	33	8.6
League of Young Democrats	22	5.7	23	6.0	24	6.2
Independents	7	1.8	27	7.0	35	9.1
Total	386	100	385	100	385	100

Source: Gabriella Illonzki "An Almost Final Report: The Hungarian Legislature From 1990 to 1993" *Journal of Constitutional Law in Eastern and Central Europe* vol. 4 no. 25 (1994).

### 3. Ideological Spectrum and Polarization

The Hungarian party system has its roots in the division among the intellectuals and intelligentsia, and among the former communists in industry and government. The parliamentary parties are linked to three differing ideological camps -- national-conservative, liberal, and social democrat. The national-conservative spectrum can be viewed as the right; the parties were comprised of nationalists, Christian democrats, populists, paternalists, the agrarians, and the culturally based intelligentsia.<sup>11</sup> At the civic end of the spectrum are the liberals (e.g.

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<sup>11</sup> Radoslaw Markowski, "Political Parties and Ideological Spaces in East Central Europe," *Communist and Post-Communist Studies* vol.30 no. 3 (1997) pp. 232–234.

Friedmanites, Thatcherites) and social democrats. Unlike Russia, Hungary's political spectrum did not include parties representing unreconstructed communists; a commonality it shared with Czechoslovakia.<sup>12</sup>

Hungary's party system also fits Giovanni Sartori's category of moderate pluralism. Markowski's findings on the self-placement of party supporters along a left-right spectrum show that ideological distance was moderate to low.<sup>13</sup> Using a seven point scale, the average policy distance among all significant parties in both Czechoslovakia and Hungary was less than half of a seven-point scale: 1.24 points in Hungary, and 3.13 points in the Czech Republic.<sup>14</sup> Comparability between the two Eastern European countries and Russia is made difficult without a single study using the same criteria and methods to estimate policy distance. However, one inference can be drawn from the Sobyenin (1994) data; in Russia, the liberal Coalition for Reform and the conservative Russian Unity were separated by approximately 16 points on the 20 point scale.

The dimensional character of Hungary's policy space also differs from Russia and Czechoslovakia. Importantly, the economic dimension was not focus of competition.<sup>15</sup> Nearly a decade of economic reform helped depoliticize competition on the issues relating to general direction of economic transformation. Instead conflict focused on 'national,' 'populist,' or right wing forces, and 'cosmopolitan,' 'urbanist,' or 'left- liberal' issues.<sup>16</sup> The conflict concerned

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<sup>12</sup>In 1990, extreme right parties represented only 5 percent of Hungarian voters in comparison with 4 percent of Czech voters. Extreme left parties represent 4 percent of Hungarian voters, (in comparison with 0 percent of Polish voters, and 11 percent of Czech voters). This trend toward moderation continued until 1998 when the MIEP an extremist nationalist party passed the 5 percent threshold.

<sup>13</sup> Radoslav Markowski, "Political Parties and Ideological Spaces in East Central Europe," *Communist and Post-Communist Studies* vol.30 no. 3 (1997) pp. 232–234.

<sup>14</sup> Ibid.

<sup>15</sup> Radoslav Markowski, "Political Parties and Ideological Spaces in East Central Europe," *Communist and Post-Communist Studies* vol.30 no. 3 (1997) pp. 232–234.

<sup>16</sup> Ellen Comisso, "Legacies of the Past or New Institutions: The Struggle over Restitution in Hungary" in Beverly Crawford and Arend Lijphart eds. *Liberalization and Leninist Legacies: Comparative*

alternative ways of catching up with the west, and involved different views of society, politics, and Hungary's relationships with the rest of the world.<sup>104</sup> Left-liberals, the Alliance of Free Democrats and the Young Democrats, emphasized internationalism and universalism. The liberal parties were urban-based, secular, and stressed the importance of the transition to democracy and the market. The right, that included the 1990-1994 government parties, emphasized nationalism (including Hungarian minorities outside of Hungary). Its constituency was in the regions, and these parties stress a closer relationship with organized Christianity.

For Hungary's political elites, the liberal-national divide provided an important framework to interpret and act upon transition issues. All of Hungary's postcommunist administrations have come from one side or the other. Since none of the governing parties have won successive elections, the right and left have alternated in power. Some also have argued that the liberal-national divide subsumed rabid anti-communist sentiment that characterized Czechoslovak politics. In addition, the focus on liberal and national issues eliminated the pro-communist debates that continued to characterize Russian politics.

#### **4. Summary: Hungary and Czechoslovakia Party System Characteristics and Coalition Potential**

In Hungary, historical legacies and pre-transition events framed party system development. A decade of economic reform helped depoliticize the larger issues of stabilization, liberalization, and privatization.<sup>105</sup> The first election in May 1990 under the mixed proportional

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<sup>104</sup> Ellen Comisso, "Legacies of the Past or New Institutions: The Struggle over Restitution in Hungary" in Beverly Crawford and Arend Lijphart eds. *Liberalization and Leninist Legacies: Comparative Perspectives on Democratic Transitions* (Berkeley, University of California Press, 1995) p. 194.

<sup>105</sup> During the phase of political liberalization, in the late 1980s, the communist party already had a strong reformist wing that emerged in the postcommunist era as a social democrat party that then moved toward radical liberal positions on economic policy. Hungary's elites thus were already divided into relatively well-defined ideological parties prior to transition.

system accelerated the development of strong parties, limited the political field to a few well-defined partisan actors, and reinforced the relatively low levels of conflict among them.

Hungary's party system development -- a consistent pattern of a low number of effective number of parties, party instability limited to the process of party formation, and close proximity on ideological distance -- predict favorable conditions for interparty-cooperation. Although, the demand for cooperation was low, the potential supply was high. The complicating factors for a strategy of legislative coalition concerned the majoritarian nature of the political system. Incentives for coalition-building were low; the dominant party mostly could claim legislative majorities. Another factor that could dampen inter-party cooperation stems from the highly centralized powerful executive.

#### **D. Proportional Electoral Rules and Party System Characteristics**

Akin to Russia, Czechoslovakia began its transition with movements instead of parties. Unlike Russia, Czechoslovakia's parliamentary system presented strong incentives for strong party development. Czechoslovakia conducted its first competitive elections and subsequently through a qualified proportional representation system with strong threshold requirements. Subsequent party development followed a multiparty pattern. Czechoslovakia thus had a high demand for inter-party cooperation to legislate privatization. Fairly consistent moderate levels of fragmentation, polarization, and intra-party stability would predict the possibility of stable coalitions. Since, economic reform was a polarizing issue, it is also would not be surprising to find that case-by-case coalitions may have been necessary.

## E. Czechoslovakia: Coalition Potential and Legislative Outcomes

In Czechoslovakia, although multipartism does not confer on the leadership partisan powers, party system development was favorable to inter-party cooperation and coalition-building. As illustrated in Table 5.10 below, between the June 1990 elections and the June 1992 elections, the presence of five to six parties close in policy distance predicts a large number of dyads of parties willing to form coalitions with one another. The parties aligned around neoliberal and social democrat positions.

**Table 5.10: Party Votes and Seats to the Federal Assembly in the June 1990 Elections**

Republic and Party	Chamber of People			Chamber of Nations			
	Votes		Seats	Votes		Seats	
	N	%	N	N	%	N	%
<b>Czech Republic</b>							
Civic Forum	3,851,872		68	3,613,513	49.96	50	66.67
Communist Party	976,996	13.48	15	997,919	13.80	12	16.00
Christian and Democrat Union	629,399	8.69	9	633,053	8.75	6	8.00
Moravian/Silesian Mvt.	575,015	7.89	9	658,477	9.10	7	9.33
Total			100.00 101			100.00 75	100.00
<b>Slovakia</b>							
Public Against Violence	1,104,125	32.54	19	1,262,278	37.28	33	44.00
Christian Democratic Movement	644,099	18.98	11	564,172	16.66	14	18.67
Communist Party	468,411	13.81	8	451,170	13.43	12	16.00
Slovak Nationalist Party	372,051	10.96	6	387,387	11.44	9	12.00
Coexistence	291,287	8.58	5	287,426	8.49	7	9.33
Democratic Party	149,310	4.40	7	124,561	4.67	0	0.00
Green Party	108,542	3.49	6	87,366	4.00	0	0.00
Total			100.00 49			100.00 75	100.00

Source: David M. Olson, "The Experience of the Czech Republic," in Karen Daiwasha and Bruce Parrott eds. *The Consolidation of Democracy in East-Central Europe* (Melbourne, Cambridge and New York: Cambridge University Press, 1997) p. 174.

Moderation in the policy competition allowed for critical issues to be settled and removed from the policy agenda. For instance, following Czechoslovakia's roundtable settlements, debates over acceptable forms of property and the scope of privatization quickly were settled through compromise. Vaclav Klaus along with Dusan Triska and Tomas Jezek, the architects of privatization were able to move forward quickly to deal with issues such as the methods, pace, and distributive implications of privatization policy.<sup>19</sup>

Multipartism also meant a diversity of viewpoints would be considered and deliberated. Still, favorable partisan conditions constrained the policy competition.<sup>20</sup> The debate ranged over social democrat versions of gradualist reform<sup>21</sup> and neoliberal radical reform.<sup>22</sup> In Czechoslovakia, the privatization debates reflect the overall moderate pluralist character of the party system. As expected, the structuring effects of multipartism slowed the process of policy formation. At one time or another multiple combinations of privatization methods were

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<sup>19</sup> See Hilary Appel, *Mass Privatization in Post-Communist States: Ideas, Interests and Economic Regime Change* Ph.D. Dissertation University of Pennsylvania 1998; Hilary Appel, "The Ideological Determinants of Privatization" *Winter 1998 World Politics Vol. 52 No.4* pp. 556-580.

<sup>20</sup> The privatization debates essentially encompassed two different visions -- social democrat gradual and neoliberal radical. Specifically, the two sides differed on issues such as (1) voucher with and without intermediaries, (2) insider privatization emphasizing either manager or worker preferences versus the market based vision excluding any preferential shares; (3) the use of vouchers exclusively or using combinations of other forms of market privatization including public sales favoring domestic or foreign buyers or open, tender privatization (to insiders who agree first to restructure), (4) reprivatization, and (5) state residual holdings.

<sup>21</sup> Valtr Komárek, Deputy Prime Minister championed a gradual reform strategy that favored a mixed property system which combined elements of capitalism and socialism. The group of economists supporting Komárek also advocated state intervention to control economic processes. The program proposed the denationalization of industry, followed by corporatization, and shares placed in a fund controlled by the state. Restructuring would then take place followed by privatization.

<sup>22</sup> Finance Minister Vaclav Klaus's primary concern was the implementation of neoliberal economic principles not social justice --righting macroeconomic balance; his priorities included low inflation, a stable currency, and balanced trade and government budgets, and privatizing enterprises. Klaus championed the rapid approach to transformation of the property regime -- voucher privatization. With the support of a small group of economists, Klaus argued that property must be quickly transferred to private owners.



debated, accepted, or rejected among the policy protagonists. The privatization debates assumed a bipolar character that foreshadowed the subsequent policy competition in the Federal Assembly and in public opinion.

In Hungary and Czechoslovakia, the two sets of parties aligned around a single issue divide. In Hungary, the divide formed around nationalist and neoliberal positions while in Czechoslovakia the parties differed along liberal and social democratic lines. Hungary's experience with past efforts to reform the economy in the 1980s resulted in a consensus regarding the imperative to transform Hungary's economy and property regime. All of the Hungarian democratic parties in the May 1990 electoral campaign endorsed full democracy, a shift to a market-oriented economy, and the restoration of private property rights. However, many contentious issues were left on the policy agenda.

The partisan actors who participated in the debate were economists and the political parties that emerged as rivals during the transition. During the electoral campaign in spring 1990, the two overarching issues concerned the type of capitalism (the degree of state intervention in the economy) and the correct mix of public and private property rights. In addition, different strategic positions among the six parties (who would enter parliament) were taken on issues ranging from foreign versus domestic ownership, spontaneous versus centralized privatization, institutional versus natural ownership and concentrated versus dispersed ownership.<sup>23</sup>

### **1. Czechoslovakia: Coalition Formation and Legislative Enactment**

In Czechoslovakia the evolving pattern party formation requires examining the effects of coalition formation into the two separate phases. The first phase of party system formation paralleled the first reading in the Federal Assembly of the Scenario for Economic Reform. The

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<sup>23</sup> Lazlo Bruzt and David Stark, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge: Cambridge University Press, 1998) p. 352

second phase of party formation followed the June elections and framed the final legislative decisions on the Scenario. Shortly thereafter, a new phase of party formation ensued with the breakup of the major movements (Civic Forum and Public Against Violence).

## **2. Phase I: The First Reading of the Scenario For Economic Reform**

As the above section outlined, most of the relevant decision making regarding the Scenario took place in the confines of the government prior to the bill's submission to parliament. Although the composition of government and parliament were decided by appointment pending the first elections, the outline of future party development could be observed. The partisan forces included social democrats, dissidents, nationalists, communists, and neoliberals. According to Orenstein (1996), the negotiated outcome was intended to limit the formation of an opposition from societal forces. Equally important, the cross-issue compromise was designed to assuring a parliamentary majority coming from Civic Forum and Public Against Violence.

To that end, Klaus and Vladimir Dlouhý adopted the same scenario for social policy as the gradualists. (social policy drafted by the Minister of Labor). Klaus drafted and would not compromise on the sections that were most important to him. Therefore, the Scenario was liberal in terms of macro-economic policy and social-democratic in its approach to labor relations and the welfare state.<sup>24</sup> For instance, the bill called for voucher techniques but left out the details of privatization including the distributive implications of using vouchers. The draft legislation envisioned extensive social safety nets. To avoid excessive unemployment, the bill had program of job creation and included the tripartite corporatist representational structure.<sup>25</sup>

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<sup>24</sup> See Mitchell Orenstein, *Out of the Red: Building Capitalism and Democracy in Post-communist Europe* Ph.D Dissertation Yale University, 1996. p.106

<sup>25</sup> Ibid.

Final action on the bill was delayed until after the June 1990 elections when the Civic Forum government came into power. Given the massive Civic Forum victory, parliamentary conditions were favorable for the formation of legislative majorities through coalition building. Because of the fluidity of party-system development for the next year following the elections, the type of coalition was mostly likely to be case-by-case coalitions. However, the elections eliminated the influence of extremist parties; only a small proportion were able to win seats.<sup>26</sup> Because the extremist parties mostly were marginalized, there was little likelihood of unfeasible or crisis coalitions that drove up the policy costs of privatization as in Russia. In addition, the historical record does not show instances of this type of coalition activity especially on the part of opposition parties whether neoliberal or social democrat.<sup>27</sup>

The June 1990 elections created a larger base from which Klaus could draw sources of support. The size of the Civic Forum victory brought neoliberals into parliament, and the largest winner was Klaus. Table 5.11 diagrams the possible coalition dyads that emerged from the 1990 elections and subsequent developments in party formation. In order to pass “The Scenario For Economic Reform” Klaus could draw upon a wide spectrum that cut across Christian Democrats, the neoliberal parties, and the social democrats.

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<sup>26</sup> David M. Olson, "The Experience of the Czech Republic," in Karen Daiwasha and Bruce Parrott eds. *The Consolidation of Democracy in East-Central Europe* (Melbourne, Cambridge and New York: Cambridge University Press, 1997) pp.150-196.

<sup>27</sup> Mitchell Orenstein (1996) *Out of the Red: Building Capitalism and Democracy in Post-communist Europe* Doctoral Dissertation. p. 106

**Table 5.11: Czechoslovakia: Coalition Potential**

<b>High</b>	<b>Moderate</b>	<b>Moderate/Low</b>	<b>Low</b>
<b>Liberal-Right Parties</b> Civic Democratic Party Civic Democratic Alliance Christian Democratic Party Christian Democrat Alliance	Christian Democrat	Social Democrat Civic Movement	Communist/Nationalist

High - Parties close in the political space and willing to cooperate

Moderate - Parties distant in policy but willing to cooperate

Moderate to Low - One party close, and disposed to cooperation

Low - Both parties distant or close and unwilling to cooperate

*Source:* Data drawn from Herbert Kitschelt Zdenka Mansfeldova, Radoslaw Markowski, and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Interparty Cooperation*, (Cambridge: Cambridge University Press, 1999) p. 346

### **3. Phase II: The Large-Scale Privatization Act**

The second piece of legislation that will be used to evaluate partisan arguments is the Large-scale Privatization Act otherwise known as “The Act on Conditions of Transfer of State Property to Other Persons” (Act 92/1991 Coll). The Scenario was fundamentally a blueprint that required translation into formal legislation. Passage of the bill authorizing mass voucher privatization did not take place until February 1991.

The political context underwent further changes in the interim five month period. The most important was the expected fragmentation of the liberal movements and reconfiguration of the party system. According to most accounts, Klaus forced the institutional transformation, exploited it to his advantage, and strengthened his authority to decide the important economic issues of transition. Corresponding changes in partisan patterns in the Federal Assembly and the growing neoliberal voting ights in parliament reinforced Klaus’s authority

In comparison to Chubais’ often defensive strategy in Russia, Klaus’ approach was offensive and designed to eliminate the need to respond to each policy challenge. To this end, Klaus sought to establish a well institutionalized “standard” party. In October 1990, Klaus

pursued and was elected to the post of chairman of Civic Forum. At the same time he led the formation of the Civic Forum parliamentary club -- “The Club of the Democratic Right”. In December 1990, other parliamentary clubs emerged by hiving off from Civic Forum. The Liberal Club included ministers of the Federal and Czech governments as well as parliamentary members.

The formation of a winning coalition still required the support of social democrats and Christian Democrats. These parties constituted the swing votes, and they were able to retain in the bill the provisions that originated in the social liberal compromise of September 1990. Strategically, the design of the bill also contributed to its passage. As Appel (1998) notes, the generality of bill displaced much of conflict and tensions surrounding large-scale privatization to other non-legislative arenas.<sup>28</sup>

#### **4. Summary: Czechoslovakia, Moderate Pluralism and Legislative Outcomes**

In Czechoslovakia, with its proportional representation election rules, there was a high demand for interparty cooperation. The governing coalition was oversized to meet the requirements of governance, but still was shy of outright legislative majorities in the Federal Assembly. The three indicators of the purpose variable indicated favorable conditions for coalition formation. There were low levels of fragmentation (the number of parties) except for when the party system underwent transformation. In addition, intraparty stability (changes in size or identity) took place consistent with the process of party system consolidation.

Polarization or policy distance was relatively small compared to Russia since the left was marginalized; the competition was shaped by the neoliberal and social democratic issue divide. Because economic reform was the most important issue divide in Czechoslovak politics,

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<sup>28</sup> See Hilary Appel, *Mass Privatization in Post-Communist States: Ideas, Interests and Economic Regime Change* Ph.D. Dissertation University of Pennsylvania 1998 p. 116.

the potential was present for polarization to manifest especially before electoral competition. The purpose argument predicts that major privatization legislation was passed as result of favorable parliamentary conditions for coalitions to form. The powers distribution argument predicted that passage of privatization laws was likely not because of a powerful executive but because the removal of conflictual interactions between the executive and legislature created the opportunities for cooperation between the branches.

To some extent both are correct in that the two explanations appear complimentary. The cooperative-competitive pattern of executive and legislative relations advanced the policy agenda in public and in the government. The agenda-setter analysis indicated that the dominance of the executive in the process as the leader and parliament as the follower tended to neutralize parliamentary opposition based on ideological and electoral concerns. Federal Assembly procedures through the leadership structure and committee system permitted parliamentarians to take a stand on economic reform and privatization without resulting in numerous amendments diluting the bill.

However, if parliamentary conditions were unfavorable, the likelihood of constructing the neoliberal-social compromise may not have been possible. By contrast, under conditions where the unity of purpose is high, the potential exists to unify disparate interests through a broad-based coalition. Positive theory tells us that such conditions are favorable for cooperation based on gains from exchange (Kitschelt et al., 1998). All of these propositions appear to match the conditions that led to Czechoslovakia's cross-issue compromise. The neoliberal parties fought for and largely won their radical economic reform policy agenda including voucher privatization without preferential shares for employees. Those with social democratic leanings fought for and won on labor and welfare policy.

However, the coalition that formed to construct the neoliberal compromise does not match the stable governing coalition as described by Kitschelt. Instead, the compromise was legislated by an issue specific temporary coalition. The passage of the neoliberal Large Scale Privatization law in February can be attributed to changes in party system and the emergence of a new and strong neoliberal coalition.

#### **F. Hungary: Coalition Potential and Legislative Outcomes**

The Hungarian disproportional electoral system permitted the ruling party to govern with minimum winning coalitions or single party government. In Hungary, between 1990 and February 2000, the prime minister was, at the same time, leader of the main governing party, giving him political authority beyond that accorded by constitutional provisions. Given the manufactured majorities, coalition building occurred at the time of the election. The norm of coalition politics in post-communist Hungary has meant that the prime minister's political authority over his cabinet as a whole was framed by holding the coalition together. As noted, this in part explains why restitution policy came onto the policy agenda and contributed to the delay in legislating large-scale privatization framework legislation. The partisan in addition to the constitutional sources of prime ministerial power it could be reasonably argued led to a low demand for inter-party cooperation.

Parliamentary dynamics in the National Assembly were then were shaped by the three governing and three opposition parties. According to the purpose thesis, party systems characterized by low levels of fragmentation, polarization, and instability increase the potential for inter-party cooperation. The Hungarian case raises the issue of whether these predictions hold for a majoritarian parliamentary system in which the executive has little incentive to engage in cross-party coalition-building.

In the previous discussion Hungary's majoritarian configuration of institutions served as an exemplar for the gains and mistakes that can take place through the sheer exercise of executive prerogative. The institutional explanation of Hungary's two-year delay in legislating framework legislation was explained by drawing the issue of effectiveness and credibility when the executive assumes full control over reform legislation. In other words, the accumulated (perceived and real) policy failures, led to parliamentary reluctance to pass new legislation without its own input into the process.

In expanding upon the purpose argument suggests that problems with coalition building beyond the governing coalition was related to the powerful executive and the unilateral policy style. In Hungary, as in Czechoslovakia, we would expect to find a tight link between the party system indicators and the disposition for parties to collaborate. Using Kitschelt's data, table below shows the following outcomes. First as Kitschelt notes, the government coalitions in the first and second legislative terms are among the most feasible dyads by policy distance low. Kitschelt adds in that sympathy among the partners was high.

In the Antall government, there were two dyads: (1) the Hungarian Democratic Forum (MDF) and the Christian Democrats; and (2) the Hungarian Democratic Forum and the Smallholders (FkGP). Although the Smallholders eventually left the government, it was because of internal disputes and the defection of the more radical, nationalist mps. The majority that remained continued to vote with MDF on key issues. In the Horn government that followed, the social democrat Hungarian Socialist Party also was a feasible partner with neoliberal Alliance of Free Democrats (since both shared similar visions for economic transformation).



**Table 5.12: Hungary's Coalition Potential: 1990-1994**

<b>High</b>	<b>Moderate</b>	<b>Moderate/Low</b>	<b>Low Coalition Potential</b>
<b>Social Dem/Neoliberal</b> Hungarian Socialist Party Alliance of Free Democrats		<b>Social Dem/Neoliberal</b> Hungarian Socialist Party Federation of Young Democrats	<b>Social Dem/Nationalist</b> Hungarian Socialist Party Smallholder's Party
<b>Neoliberal</b> Alliance of Free Democrats ion of Young Democrats		<b>Nationalist/ Neoliberal</b> Hungarian Democratic Forum Alliance of Young Democrats	<b>Social Dem/Nationalist</b> Hungarian Socialist Party Christian Democrats
<b>Nationalist Conservative</b> Smallholder's Party Christian Democrats			<b>Social Dem/Nationalist</b> Hungarian Socialist Party Hungarian Dem. Forum
<b>Nationalist Conservative</b> Christian Democrats Hungarian Democratic Forum		<b>Neoliberal/Nationalist</b> Hungarian Dem. Forum Alliance of Free Dems	<b>Neoliberal/Nationalist</b> Smallholder's Party Alliance of Free Dems
			<b>Neoliberal/Nationalist</b> Christian Democrats Alliance of Free Dems
			<b>Neoliberal/Nationalist</b> Smallholders Federation Young Dems
			<b>Neoliberal/Nationalist</b> Christian Democrats Alliance of Free Dems

High - Parties close in the political space and willing to cooperate

Moderate - Parties distant in policy but willing to cooperate

Moderate to Low - One party close, and disposed to cooperation

Low - Both parties distant or close and unwilling to cooperate

Source: Data drawn from Herbert Kitschelt Zdenka Mansfeldova, Radoslaw Markowski, and Gabor Toka, *Post-Communist Party Systems: Competition, Representation, and Interparty Cooperation*, (Cambridge: Cambridge University Press, 1999) p. 346

During the Antall government, there was less common ground for the nationalists and neoliberals to unite upon. Political conflict over privatization prior to the formation of the government took the form of ideological differences that reflected the historical origins of the parties. Differences in party orientation were expressed initially through public debate and were advanced in party programs as a means to differentiate their electoral positions in the run-up to the May 1990 elections over the pace, extent, and methods of privatization.

Prior to the transition, differences emerged on two overarching issues -- the type of capitalism (the degree of state intervention in the economy) and the correct mix of public and private property rights.<sup>29</sup> Accordingly different strategic positions among the six parliamentary parties were taken on issues ranging from foreign versus domestic ownership, spontaneous versus centralized privatization, institutional versus natural ownership and concentrated versus dispersed ownership.<sup>30</sup> After winning the election, MDF moved closer to the neoliberal Alliance for Free Democrats and Federation of Young Democrats on the issue of placing a strong emphasis on attracting foreign divestment and on limiting insider employee ownership. Otherwise, the two camps disagreed on the mix between public and private, the sale of strategic enterprises, the methods, pace, and institutional component of privatization. Tensions increased also as the Antall government proceeded with policy shifts that favored direct sale of enterprises to its employees. Therefore, it is not surprising that when the Horn government entered office many of MDF's policies were reversed and a strict neoliberal strategy was applied during the phase known as the "big push."<sup>31</sup>

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<sup>29</sup> See *Party Program* Christian Democrat People's Party, (Budapest, 1990); Federation of Free Democrats, *Program for the Change of the System*, (Budapest, 1989); Hungarian Democratic Forum, *Hungarian Democrat Forum Program* (Budapest, 1989); League of Young Democrats: *A Fidesz Program*, (Budapest, 1989).

<sup>30</sup> Lazlo Bruzt and David Stark, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (Cambridge: Cambridge University Press, 1998) p. 352.

<sup>31</sup> See David L. Bartlett, "The Political Economy Privatization in Hungary," (Winter 1992)

## **1. Summary Hungary: Coalition Formation, and Privatization Policy**

In Hungary, the majoritarian electoral system as well as partisan conditions gave rise to stable, governing coalitions. However, it appears that the majoritarian system of governance accentuated the policy distances between the parties rather than muted them as in Czechoslovakia. Therefore, another plausible explanation for the delay in privatization legislation can be traced to the government's competitive and sometime conflictual relationship with the three neoliberal opposition parties in parliament.

As the discussion above noted, there were important areas of disagreement between the neoliberal and nationalist parties regarding large-scale privatization strategy. Given the issues regarding government effectiveness that emerged by 1992, the exit of the Smallholder's from the government, and the policy distance between them may have increased the demand for MDF to engage in compromise and coalition building. In the interim two-year period since privatization began, the neoliberal parties also were the most vocal regarding the government's dominance over the policy process. As noted, it was neoliberal parties that went to the Hungarian Constitutional Court in an attempt to stop legislation in the middle of legislative process.

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*East-European Politics and Society*, pp 73-118; Anna Canning and Paul Hare, "Political Economy of Privatization, in Hungary: A Progress Report," *Working Papers Center for Economic Reform and Transition*, September 1996

Kitschelt (1998) argues that when parties are not that distant in policy but do not cooperate there several sources of the problem. The reduced disposition to cooperate can stem from a strong communist presence, rabid anticommunism, and/or a powerful executive that is not interested in building cooperative relations with the parliamentary parties or as in the case of Hungary with the opposition parties. Therefore, Chart 5.12 showed far more dissonant dyads than would be predicted by the partisan conditions alone. It also adds a partisan explanation for the two-year delay in legislating privatization.

## Chapter Six

### Dissertation Conclusion and Findings

#### I. Introduction

In the postcommunist transitions or transformations, the elites had to address a minimum of two large-scale projects, the construction of new democracies and capitalism.

Democratization required a fundamental redistribution of political power; it entailed the “process of subjecting all interests to competition, to institutionalizing uncertainty.”<sup>1</sup> Further as Przeworski (1988) notes, power is devolved from a group of people to a set of rules”<sup>2</sup> Others have pointed out that the new distributions of constitutional power in a democratic regime should be interpreted as a set of rights and legitimized authority.

Often this process of democratization has been viewed at odds with the second challenge -- the creation of a capitalist, market economy. In the postcommunist countries, this task was complicated by the requirement of transforming on an unprecedented scale the socialist forms of collective property. Privatization, especially of the large industrial enterprises, also meant a fundamental redistribution of economic power from the ancien regime that entailed consequences for the future life’s chances of entire societies.

In this dissertation I have explored democracy “as a form of political organization.” In addition, I have made the claim that “solutions to problems of democracy consists of institutions.”<sup>3</sup> I have argued that the first step of democratic institution-building involved the often highly-constrained choice of new institutions of governance and electoral systems. Through a detailed case study of the Russian Federation, I have shown that these institutional choices had consequences for the repertoire of strategies from which political actors can choose

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<sup>1</sup> Adam Przeworski, “Democracy as a Contingent Outcome of Conflicts,” in Jon Elster and Rune Slagstad ed. *Constitutionalism and Democracy* (Cambridge: Cambridge University Press, 1988). p.63

<sup>2</sup> Ibid., p.64.

<sup>3</sup> Ibid.

their course of action. Cross-nationally, the diversity of new political institutions structured differences in decision making, and, by extension, the selection of privatization strategies, including the legislative adoption of the legal framework.

My broader contribution to the study of dual transitions has been to highlight the study of the new laws and the law making process that produced them. My intention was to move away from strictly societal or economic interests or political interests explanations that focus only on the positional power distribution of stakeholders. In many accounts in the comparative political economic literature, the distribution of societal, political, and economic power is viewed strictly as an artifact of the past, and it is probed as the key determinant that shaped a postcommunist country's chances for achieving both democratization and capitalism. In societal accounts, the problems of democracy related to economic transformation concern the introduction of new political forces, elections, and other channels of access by which old and new societal forces can challenge, capture or otherwise constrain governmental decisions.

Admittedly to probe deeply the complex, multifaceted world of political institutions, my account is a highly stylized presentation. The chapters that dealt with institutional political actors and partisan actors only revealed occasional hints of the highly conflictual processes that occurred as different actors contested privatization policy, attempted to capture property rights to the detriment of the public good, and in some cases struggled over and tried to reverse the outcome.

By focusing on the early phase of Russian privatization, my account may also appear to minimize the country's later problems with the cash sales phase and the loans-for-shares program. If the Russian president's early decrees and the state program's reliance on insider privatization set into motion the highly skewed process of making a few millionaires and

impoverishing many, the decisions made during 1995 and 1996 made a highly inequitable income structure inevitable.

Indeed, a strong case can be made in support of partial reform theory. Once the decisions to create industrial-financial conglomerates became industrial policy, the growing strength of these actors highly constrained then president Boris Yeltsin from righting the situation through new policies. However, Russia's new state program adopted in 1997 was designed precisely to end insider privileges or special deals for the remaining shares that were offered in some of the country's most valuable and strategic industries. Presidential power in the 1993 constitution may be one explanation. Or as this dissertation has argued presidential power that is contextualized in a less conflictual constitutional environment may have turned the outcome. This puzzle that remains for future research. But it brings us back to asking whether political institutions are solutions to democracy's dilemmas? Here I defined the dilemmas not as one of excluding or including societal forces, but focused on how institutions structure decision making as they circumscribed elites and societal actors alike.

This final question is not purely academic. The compatibility between democratic institutions and economic transformation has been the central issue occupying the scholarly study of postcommunist transitions. But it also has been central to postcommunist elites implementing these difficult reforms and learning through experience. Now some twelve to thirteen years since the transitions began, some postcommunist countries such as Hungary, Czechoslovakia, and Poland have successfully completed their transitions. Unexpectedly although Russia still struggles with some issues fundamental to democratic freedoms, it also more or less has moved in directions that hopefully will lead to further democratic consolidation. Since 1996, there also has been a consensus that Russia achieved its goals of becoming a market economy.

However, as Chapter Two starkly illustrated, the kind of capitalist economy Russia will become still remains an open question. Other postcommunist countries are works in progress, especially the Central Asian countries. Today, Serbia and Kosovo are dealing with the dual challenges that faced the earlier transiting postcommunist countries. As democratization spreads to perhaps the Middle East and other parts of the world, the same challenge of denationalizing industry in the context of new democratic institutions will be central to creating a new political and economic order. Therefore, the dual transition dilemma remain a central issue in comparative politics, but two decades of experience have shifted debate and questions.

To deal with the question of whether political institutions can help optimize decision making and thus constitute “enabling constraints” for future large-scale transformation projects, the rest of the concluding chapter is organized in three sections. Section II deals broadly with the concept of institutions and their proposed effects on policy making in new democracies. Section III summarizes the dissertation findings and their implications for governance in the wider universe of cases. The final section suggest directions for future research.

## **II. Constitutions and Electoral Rules: Institutional Effects on Policy Making**

Is there relationship between the design of democratic institutions and the achievement of optimal collective decisions? Optimum collective decisions making here is defined as achieving goals important to the transition such as deep and equitable property reforms. Democratic institutions refer to first-order institutions of governance and the electoral rules for choosing leaders. Overseeing both are the written or “parchment” constitutions

Constitutions are designed to distribute power among actors, generate efficiency in governance, and govern the interactions of actors. As shown by this dissertation, constitutional designs intentionally and sometimes with unanticipated consequences result in highly competitive struggles by political actors over high-stakes distributive issues such as



privatization. Sometimes, the constitutional rules of the game can lend to highly conflictual interactions among actors in which the participants attempt to change the rules to better pursue their policy interests. However, this research has also shown that the distribution of constitutional powers also induces political actors to engage in interactions that repeatedly result in cooperative solutions.

Many rival theories also have endeavored to explain inefficient or suboptimal collective decision making, especially regarding the policy necessary for conducting large-scale projects of economic transformation. Economic interests or stakeholder theories were the most prominently used to explain postcommunist privatization. Stakeholder theories view decision makers as highly constrained by the extant distribution of power among socioeconomic groups such as enterprise managers, former nomenklatura, soviet era bureaucrats, and labor unions. In principle, the highly influential partial reform theory also supports this contention but departs in predicting the timing of the capture of property rights.

Using cross-national comparisons, I show that indeed postcommunist executives and lawmakers were constrained in policy decision making, but that economic interests cannot explain the nature of the decision process or the consequences -- privatization strategy and the enactment of the laws necessary to implement privatization. I contend that the new rules of the game as prescribed by the amended and new constitutions adopted by these countries determined who would participate in decision-making. Second, the distribution of constitutional powers determined which actors would be privileged in policy making. Further, the weighting of proactive versus reactive powers determined which institutional actors would assume the role of an agenda setter and who would lead and the actors that would become followers. Stakeholders and economic interests mattered if they could find paths into the decision making process; their

influence was not necessarily organizationally based but was weighted by their role within the new constitutional order.

Following Deirmeir and Kreibel (2002), I defined political institutions as a “set of contextual features in a collective setting that defines constraints on, and opportunities for individual behavior.”<sup>4</sup> The problem I posed concerns how executive actors maximize their goals under equilibria institutions including but not limited to law making by decree, majority vote decision rules, confidence procedures, and closed (open) amendment processes that structure law making in legislatures.

In this dissertation, institutions also set the rules of game, and as the rules vary the constraints and opportunities for executive (parliamentary) action manifest differently. Institutional rules, according to Tsebelis, define the set of players, spell out permissible moves, the information prior to moves, and specify the sequence of play.<sup>5</sup> Variation in the rules promote distinctive patterns. First, in an institutional setting such variation may involve as Tsebelis proposes a change in the set of players. The equivalent in this study was the difference between the Russian president legislating by decree versus the Czechoslovak premier submitting legislation to the floor of the parliament. Second, the content of the rules specifies a change in the permissible moves. Tsebelis’s example highlights the difference between legislators submitting amendments with open rules versus as in a parliament without closed rules or no amendments.

Differences in the Hungarian and Czechoslovak cases illustrate how variation in the parliamentary rules of operation had strong implications in structuring the behavior of legislators. In Hungary, amendment submission often appeared as a symbolic act. The executive

<sup>4</sup> Daniel Diermeir and Keith Krehbiel, “Institutionalism as Methodology,” (May 23, 2002) p. 2.

<sup>5</sup> George Tsebelis, *Nested Games: Rational Choice in Comparative Politics* (Berkeley: University of California Press, 1990)

limited parliamentary participation by controlling the committees and the legislative majority. Czechoslovakia's Federal Assembly by contrast could pass amendments that could change the final form of government proposed piece of legislation. In Russia, the Chairman of the Supreme Soviet had the discretion to cut off amendments prior to sending a bill to the floor.

Third, a change in the sequence of play also can also change the policy outcome in that it entails powers such as a government asking for a vote of confidence in front of the upper chamber before going to the lower chamber. The rules here can advantage one player over another as highlighted in agenda-setter theory. The actor that goes first has the advantage in achieving their policy preferences over the actors that become followers. Linked to a theory of leadership, the agenda-setter and leader-follower models make explicit why leaders who appear to lose momentum once a bill is sent to parliament still have a 50-50 to emerge with most of their legislative proposal intact. In Russia and Czechoslovakia, the agenda setter/ policy entrepreneurs Chubais and Klaus respectively used these rules to manipulate the end of the legislative process in their favor. Both cabinet ministers mobilized support from the president and the public; parliamentary objectives in both cases were framed to appear as a "return to the past."

Tsebelis's fourth element concerns the ability to change information; here he offers the example of a prime minister changing a regular vote on a bill to one that would be considered a vote of confidence. In both Hungary and Czechoslovakia, both prime ministers could draw upon this power. In Russia, the rule concerned the ability of the Chairman of the Supreme Soviet to restrict or cut-off the legislative process thus eliminating the deputies' ability to attach amendments to a bill. Chubais in submitting the State Privatization for 1992 to the Supreme Soviet went into the process with high certainty that the Chairman would invoke this right. The Chairman's decision to allow open amendments permitted the inclusion of insider privatization,

and changed the contours of privatization and its affects on the distribution of wealth of the Russian Federation for a decade.

To summarize, institutional rules, constrain, create opportunities but also have content that structures the constitutional rules of the game. If the rights define the room for maneuver and the rules contextualize the executive's goals, actions, and the nature of the executive's relations with the legislature. Having ascertained the effects of institutions on individual and groups decision making, the next question is whether one set of institutions optimize collective decision making more than others. One answer would be to quickly identify the institutions most related to power decrees and vetoes. However, the outcome often is a result of actor interactions. The discussion below brings together these two strands. In doing so certain sets of democratic institutions were identified that appeared to contribute to radical and equitable privatization policies.

My institutional argument was developed in two parts. First, I argued that the design of institutions chosen by the postcommunist elites entailed complex configurations of rules and rights that shaped the chances for achieving optimum collective decision making. I further demonstrated that the distributive properties of the constitutional powers and other variables such as federalism, bicameralism, and constitutional courts can turn policy outcomes in unexpected directions. Second, within the larger institutional game, I examined whether electoral rules and partisan conditions in diverse parliamentary settings shape policy outcomes by circumscribing the role of stakeholders. More important, my dissertation by testing Kitschelt's (1998) coalition theory found that variation in the partisan structure of parliamentary settings optimized governance by solving collective action problems in new legislatures by encouraging a unity of purpose.

Through four substantive chapters, these theories were applied to the case study of large-scale privatization in the Russian Federation, then explored through a pair-wise comparison of Hungary and Czechoslovakia's experiences during the first phase of property reform (roughly 1990-1994).

### **A. Distributive Theories of Institutions and Findings**

In Chapter One, a distributive theory of institutions in new democracies was developed to explain why policy change may be more likely in some institutional configurations rather than others. Distributive theories of institutions concern the effects of the constitutional powers on governance and policy innovation. Further, rights as in property rights, are often used as a metaphor to suggest the contested and often conflictual nature of the constitutional distribution of power. As Remington notes, "rights often are embedded in formal rules. They are enforced in a variety of institutional processes. These external devices are complimented by the effort of individuals or groups to multiply and protect their assets."<sup>6</sup> Further, the use of valuable assets often involves mutually advantageous exchanges, which in turn are based on contracts or rules to help specify and enforce agreements about those exchanges.<sup>7</sup>

In this study, all the institutional or constitutional powers involved the equivalent of executive and parliamentary property rights. For the executive, these rights referred to the constitutional powers governing the control over the cabinet, policy, and his/her accountability -- appointment and dismissal, decree, veto, and proposal among others. By contrast, parliaments often enjoy the right as having the sole responsibility for legislating the laws of the land. Parliaments also appear as an important check on executive policy initiatives through their amendment, oversight, and sometime confidence mechanisms.

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<sup>6</sup> Steven S. Smith and Thomas Remington, *The Politics of Institutional Choice: The Formation of the Russian State Duma*, (Princeton: Princeton University Press, 2001) p.10

<sup>7</sup> *Ibid.*

Several exemplars of how these distributions may vary and the importance of this variation for decision making were developed through this research. For instance, in some cases, the legislature shares the process of policy formation and legislation with the executive as in Czechoslovakia. In other cases, the relationship is not balanced; parliament mostly responds to executive initiatives through the amendment process and the oversight function as in Hungary. In other cases, asymmetrical power distributions can induce conflict. In Russia, distribution assumed the form a bipolar distribution of powers that led to a constitutional power struggle.

However, a power distribution perspective also acknowledges that political institutions contribute to a range of efficiency effects. As Thomas Remington notes, “institutions represent solutions to the problem of overcoming obstacles to cooperation, coordination, or exchange among individuals.”<sup>8</sup> In the context of new political institutions and electoral systems, the key challenge included the formation, enactment, and implementation of policies necessary to the creation of a market economy and capitalist development. From an efficiency perspective, institutions were expected to impose cooperation, coordination, and fair exchange among the protagonists in the policy making process, and yield policy outcomes beneficial to overall welfare or “the maximum productive uses of resources which might be judged as a collective goods.”<sup>9</sup>

Undoubtedly, in the postcommunist countries as well as in the previous third wave transitions, the executive -- presidents, prime ministers, and governments -- have been the central policy actors seeking to transform the property rights regimes. In Chapter 1, I examined prominent new institutionalist theories that seek to define the relations between reform-minded executive and constitutional rules. From the literature, two sets of hypotheses were developed

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<sup>8</sup> Thomas F. Remingtons and Steven S. Smith, “Theories of Legislative Institutions and the Organization of the Russian Duma.” *Journal of American Politics* Vol. 42 pp. 548.

<sup>9</sup> Ibid.

that are considered alternative approaches to understanding the institutional effects of executive power. Hypotheses one and two considered the more conventional direct relationship between executive power and policy change. Hypothesis one predicts that policy change is a function of the executive's independence from parliament and the incumbent's control over the cabinet. Hypothesis two predicts equitable and radical privatization policy will follow if the executive controls both the proactive and reactive powers. The findings of this chapter indicate that a focus on the constitutional powers of a single actor only has narrow explanatory power.

For instance in Chapter 3, comparative constitutional analysis indicated that in the Russian Federation the most important features of the distribution of power included the concentration of legislative powers in the office of president, the non-legislative powers in parliament, and the federal format of the state. Other factors that shaped the power distribution included parliament's own rules of operation that permitted it to play a policy deciding and blocking role. Using Lijphart's categories, Russia's institutions included majoritarian or power centralizing features related to the executive's prerogatives. Decentralizing features were reflected in the two-tier parliament and in the federal structure of the state.

The direct effects of the distribution of the non-legislative powers in Russia gave the president control over the cabinet for a limited period of time; the president controlled the appointment and dismissal powers without parliamentary investiture for approximately one year. During that time, the president formed the technocratic reform team envisioned to conduct Russia's economic transformation. The president's most important appointments were neoliberal economist Yegor Gaidar as Deputy Prime Minister in charge of the reform and Anatolii Chubais as the head of GKI, the privatization ministry and cabinet minister. Equally important, the design of the origin and survival rules predicted instability between the branches. Despite his fixed term, the president could not be considered independent of parliament. During the first years of

his term, he could not dissolve parliament. Furthermore, the censure, and impeachment powers controlled by parliament gave it leverage over executive strategy.

In Chapter 5, the distribution of non-legislative powers in the Hungarian case poses a stark contrast between the two countries. The Hungarian Prime Minister held full control over the cabinet and independence from parliament as a result of the constructive no-confidence mechanism. True to expectations, the control over the cabinet marked just the beginning of a process of the consolidation of executive power in the office of the prime minister along the lines of the German chancellorship. Contrary to prediction, the prime minister's appointment powers and control over the personnel in the privatization ministry led to some instances of patronage appointments. The Hungarian case is instructive in observing how the political use of the personnel instrument diluted the technocratic character of the State Privatization Agency and most likely contributed in part to the instability of its privatization policy.

Regarding hypothesis two, the distribution of proactive legislative powers favoring the executive predicts policy outcomes consonant with the dominant executive thesis. For normative democratic theorists, dominant executives pose dangers to new democracies. In particular powerful presidents are expected to optimize decision-making by introducing an element of dictatorship. By contrast, in the comparative policy literature executives that can draw upon the full repertoire of proactive and reactive legislative powers are considered most likely to accomplish the difficult tasks associated with economic transformation.

Per this thesis, the Russian President's stock of legislative powers would predict a strategy of rapidly accomplishing the economic transformation by legislating by decree. Indeed, there are important examples of decrees used to initiate and implement privatization. However examination of the Russian privatization laws indicated that the president relied on decrees for specific strategic purposes including bargaining leverage with parliament. Although the ratio of



decrees to laws was high, the president also submitted the most important framework laws to the Supreme Soviet for consideration.

Hungarian Prime Minister Antall also showed a propensity for dominating the legislation of privatization. The prime minister's powers -- legislating by decree, attaching confidence votes to legislation, setting time limits for consideration of bills in parliament among others -- suggested swift legislation of the legal framework for privatization. Indeed, after month after coming into office, the prime minister was able to legislate the Temporary Asset Guidelines, Reprivatization (small-scale privatization), and important laws regarding the privatization agency. Nonetheless, the prime minister's inability to legislate frameworks laws for two years was inconsistent with the expectations that are associated with majoritarian prime ministerial governance. By contrast, Czechoslovakian Finance Minister Klaus legislated the entire legal framework for privatization after being in office for a little more than year although he was situated in a fairly weak executive given the distribution of constitutional powers

## **B. The Distribution of Power: The Institutional Context for Executive Action**

To address the largely unexplained aspects of the degree and kind of property change in these countries, hypotheses three and four drew upon positive theory of institutions to consider the ways executive power may be constrained or enhanced by two intervening variables. First, the constraining effects of multicameral institutions were examined to see if they affected the exercise of the executive's legislative powers. Second, the pattern of power distribution shaping executive and legislative relations was considered. In Russia, the pattern assumed a two-actor asymmetrical pattern. That is, the president was advantaged by the proactive legislative powers. Parliament had some important reactive powers, but relied instead on the censure and impeachment instruments. A single-actor asymmetrical concentration of both sets of powers emerged in Hungary; the interactions triangulated between the prime minister, the parliament

and the powerful constitutional court. By contrast, in Czechoslovakia, the distribution of the non-legislative and legislative powers proved to be relatively evenly distributed among the executive and parliament.

In Chapter 3 to apply this argument to the Russian case, I drew upon decision theoretic methods and applied a constrained, rational-actor approach to explain privatization policy decisions. The asymmetric pattern of legislative and non-legislative powers was used to identify the institutional incentives guiding interbranch relations. In sequential rounds of decision making, the president's chances for controlling the policy outcome were predicted by (1) his decree, agenda-setting, and veto power, and (2) the parliament's means to constrain the president, given its reactive legislative and non-legislative powers. Cost-benefit analysis of the executive's powers identified the institutional incentives that shape executive and legislative relations given the various patterns the power distribution can assume. From the incentive structure implied in these patterns, it was possible to predict the nature of the interactions between the executive and legislative branches and their impact on the sequential process of privatization decision-making.

In Russia, as well as Czechoslovakia and Hungary, the configuration of the legislative powers defined the relations between the executive and legislative branches as a leader-follower set of interactions. In other words, the executive assumed the role of agenda setter. Agenda-setter theory tells us that the actor who controls the agenda and the sequence of moves often can shape the final policy outcome. In particular, the Russian and Czechoslovak experience continues to support these claims. In Hungary, the theory applies but less so since the prime minister relied less on agenda setting as a means to control the final policy choice. In Russia, the president with less certainty over the final fate of the privatization framework laws in parliament and economic transformation, relied heavily on articulating his goals and setting the neoliberal direction of

economic policy. Yeltsin used his cabinet appointment powers, decrees, and exclusive proposal of economic reform, to capture the terms of debate, mobilize support for his neoliberal policy agenda and take the offensive. The president's commitment to radical property reform defined the "appropriate" policy response to Russia's future as a market economy based on private property.

In Russia, the institutional incentives approach helped illuminate the interactions between the president and parliament. In the sequence of decision making, the preparatory laws of privatization were implemented by a cooperative arrangement that authorized the use of decrees. Next, the radical economic reform program was implemented by presidential decree. The framework legislation of privatization followed and required legislative adoption in parliament. As predicted, Parliament weakened by its delegation of special powers to the president responded with the constitutional available, including censure, investiture, and impeachment. The interactions between the branches transformed the previously semi-cooperation relations into a competitive one, and then to conflictual confrontation.

The asymmetric patterns of power distribution as divided between executive and legislative proved to influence the likely actor strategies. The president's choices ranged from drawing upon his decree power to submitting the legislation to parliament. The limits of parliament's policy strategy was set by the president's decree, proposal, and veto powers. Because of the president's agenda setting strategy a priori to the submission of a bill, the parliament by and large, negotiated within a set of alternatives set by the president after its submission. Parliament could only make changes within the executive's choice set.

Parliament's reactive powers meant that it could oppose presidential unilateralism using amendments to change the final form of the bill. In the interim between the initiation of shock therapy and the final reading of the bills, the interactions between parliament and president grew

increasingly conflictual. In short, the costs of the interactions between president and parliament increased as he engaged in perceived unilateral actions. Dissatisfied with only being able to respond to presidential legislative initiatives after submission, parliament had strong incentives to draw upon the powers related to survival of the executive. Subsequent events bore out the consequences of its decision to engage in high stakes politics with the executive. The impact on the final version of the bill manifested in two important ways. The Chair of Supreme Soviet reneged on agreements with Chubais to use his prerogative to cut off the amendment process, and the rest of legislative process resulted in significantly more bargaining and policy loss costs than Chubais had anticipated.

The final outcome of the legislative process of the 1992 State Program reflected victories in sustaining important principles such as defining property rights on an individual rather than collective basis and imposing a market-based process of divestment of Russia's enterprises. The more liberal aspects of the final bill can be attributed to the agenda-setting of the president and the political entrepreneurship of privatization minister Chubais. Most of these initiatives appeared to be low-cost in terms of extracting a cooperative response from parliament and high yield in terms of the policy benefits.

The less desirable provisions or amendments that appeared in the final bill such as large preferential deals for enterprise insiders can be attributed to conflictual interactions between the president and parliament that ensued shortly after the implementation of Russia's version of shock therapy by presidential decree. By backing Chubais's neoliberal radical privatization, prior to legislative submission, the executive controlled the issue with its assertion of leadership.

In Hungary and Czechoslovakia, the application of this framework showed that the executive-legislative powers distribution variable assumed different forms and consequences. Using the cost-benefit analysis and a constrained rational actor model showed how institutional

incentives may structure actor behavior as the distribution of power varies. The value of viewing institutional effects as an ongoing sequential process may be instructive for other countries contemplating or forced to transform their property regimes.

In Hungary, the single-actor concentration of both executive and legislative powers in the executive predicted that the executive would be free to legislate radical, equitable reforms. The Hungarian executive was able for a time to legislate his preferred policy options using decrees and his legislative majority in parliament. The high stakes politics characterizing Russian privatization was by and large absent as a decision-making dynamic. However, in both Russia and Hungary, policy effectiveness was important because each leader had increased the stakes by using rather unilateral approaches to decision making. Ineffective implementation of the large-scale privatization program and Hungary's multiple policy shifts offered strong incentives for dissatisfied parliamentarians to respond through interpellations and questions. Ultimately, despite the prime minister's wide-ranging powers loss of support in parliament cost him nearly a two-year delay in legislating the major framework bill.

The other important finding in the Hungarian case concerned the constraints imposed upon the executive by the Hungarian Constitutional Court. There are several lessons here. First, constitutional designers in a democracy are unlikely to leave executive power unchecked. In addition, the court's wide-ranging powers attested to Hungary's commitment to becoming part of the European Community and to human rights and equity issues. In part, the equitable dimensions of Hungary's privatization policies and economic transform stemmed from court decisions. Second, the court wisely abstained from prompting or aiding and abetting potential conflict between the branches. The court by refusing to intervene in the middle of the legislative process ensured the integrity of parliament as a decision making arena.

In Czechoslovakia, the even distribution of powers between the executive and parliament posed a conundrum. How could a country with only a moderately empowered executive achieve the most radical, sustainable property reforms? If executive power was a factor, how could we identify its effects? In some accounts of Czechoslovak privatization, the assumed consensus among elites often led to neglecting the role of political institutions. However, the institutional incentives analysis showed that as in Hungary, the likelihood was high for competitive relations to manifest, but also instances of cooperation based on gains from exchange.

The distribution of non-legislative powers dampened incentives for high stakes use of the no-confidence process since it most likely would pose a lose-lose situation. The executive did not have decree power other than the norm for implementing legislation. Therefore, parliament had little incentive to accumulate the type of resentments that manifested in the Russian case.

The achievement of the neoliberal-social compromise alerts us to the importance of not only the more cooperative policy environment but how agenda-setting in this context can induce radical and equitable privatization policy. In fact, the Czechoslovakia case suggests when executives must rely on the agenda-setting, strong incentives emerge for policy entrepreneurship to arise in response to the need to resolve collective action dilemmas and to optimize policy decision making.

### **C. Unity of Purpose Findings: Russia, Hungary, and Czechoslovakia**

In Chapter 4 on Russia, the partisan and coalition framework offered another perspective on how cooperative outcomes may be secured as well as inventive strategies for constructing legislative majorities. The argument was posed as an alternative to the powers distribution argument as well as the prevalent stakeholder theories. The unity of purpose argument reflects efficiency theory in its concerns regarding the demand and supply of institutions that may permit more optimal decision making. In this case, the object is interparty cooperation. Hypotheses five

and six argued and proved to be correct in asserting that more optimal collective decision making stems from the parliamentary setting as shaped by the electoral system and the subsequent party system formation.

In countries such as Russia and Czechoslovakia, the demand for inter-party cooperation was high; as a result of the electoral system, the executive did not have a majority coalition in parliament. The purpose variable estimated the supply of inter-party cooperation or a country's coalition potential. Party system fragmentation, polarization, and instability not only indicated the likelihood of coalition potential, but predicted what types of coalitions are going to form. The best case scenario results when stable coalitions are possible. As these indicators became higher, the next best option proved to be case-by-case temporary coalitions. The most problematic were the crisis coalitions and infeasible coalitions (no coalition forms).

In Russia, the findings through five intra-country cases showed that over the course of the first three years of the transition, the purpose indicators fluctuated. For a brief time between December 1990 and May 1991, a stable coalition pattern emerged of two major voting blocs. As party system development proceeded a multiparty system replaced the two major voting blocs. Party system characteristics were favorable enough to permit the successful formation of temporary winning legislative coalitions in parliament. True to predictions, as conditions assumed the properties of Sartori's polarized pluralism, crisis coalitions then only infeasible combinations were present, making further legislation of privatization in parliament unlikely. When Czechoslovakia's transition began, party system development began with movements and low levels of polarization leading to a postcommunist consensus on Czechoslovakia's transformation to a capitalist market economy in preparation to its return to Europe.

In Czechoslovakia, demand was high for inter-party cooperation. Party system characteristics including low levels of fragmentation, moderate to low polarization, and

instability characteristic of a consolidation party system should have made possible a stable coalition. However, the rapid development of the party system precluded this possibility. Predictably, the low levels of polarization with the marginalization of the communists and the left opened up the possibility of a cross-issue compromise. In June 1990, a three-party coalition ruled, comprised mostly of social democrats. However, within parliament there also was a new and rising contingency of neoliberal representatives that approved the country's social-liberal compromise.

Hungary's situation differed from Czechoslovakia and Hungary: the majoritarian electoral rules permitted the executive to rule with manufactured legislative majorities. The demand for coalition-building was low, but the low levels, of fragmentation, polarization, and instability suggested a strong coalitional potential. Counter to expectation, this did not quite prove to be accurate. The findings showed that the nationalist-liberal divide was sharper in Hungary than the social-democrat-liberal divide in Czechoslovakia. The explanation fit with theories that argue that coalition formation is negatively related to powerful executives. During the course of the Antall administration, there apparently were strong incentives to cultivate the governments smaller coalition partners, but not develop the support of the three opposition parliamentary parties.

### **III. Future Research Directions**

The findings of this dissertation support some of the newer theoretical directions taken in the study of institutional effects on policy change in transitional countries. Previously used to study the U.S. and legislative institutions and more recently the institutions of governance in Western Europe, the applicability of powers distribution and efficiency theories offer new insights into postcommunist governance and policy change. The effort to conceptualize institutions as complex packages of rights, rules, and transaction costs lead us to consider the



impact of the constitutional powers and electoral rules in their instrumental sense but also how they structure the incentives of institutional and partisan actors.

Theoretically, this dissertation shows that it would be productive to merge the theories regarding the institutions of governance and electoral rules. The theories if framed as top-down and bottom-up perspectives appear as rival arguments. As noted by Lijphart, the electoral system is part of cluster of characteristics comprising his ideal types of majoritarian and consensus democracies. The focus on coalitions and legislative majorities in this variant logically place these variables as an additional set of intervening factors that may decrease or increase the potential for optimal collective decision making. For instance, in Russia the account of coalition-building in the Russian legislature intersects strongly with issues regarding presidential power. Likewise, a problematic combination for transition countries may be highly majoritarian parliamentary systems of the Westminster type. In Hungary, the executive's attempts to centralize the government along the German chancellorship model from all accounts was motivated by his desire to achieve his policy goals and induce efficiency into governance.

In addition, to linking theories of constitutional power distributions and electoral institutions, there are several findings that stand out as lessons for the remaining new transiting countries. As in the postcommunist countries, undoubtedly future leaders in the executive and parliament will cast around the world to find models that appear to fulfill multiple goals, including, but not limited to optimizing governance, fulfilling their future electoral ambitions, and privileging their political party in the new political order. Since each country's past regime type, experiences with democracy, geographical location in the world, and demographics also greatly influence these decisions, such prescriptions can only become one more pieces of information in overall institutional choice.

In Russia, neither the greatest constitutional assets or liabilities proved to be the most inhibiting to legislating privatization and overall governance. Russian elites competed over whether the form of government should be presidential or parliamentary. If presidential, they questioned how powerful that executive should be. The competitive instinct between all the constitution-makers led to the problematic configuration of two powerful institutions where the institutional incentives proved to generate an escalation cycle of conflict that led to the constitutional crisis that ended the First Russian Republic. The privatization accomplishments that can be attributed to the first turbulent period in Russian politics appear to derive from the more low-cost solutions entailed in agenda-setting and mobilizing support. Both tasks are more difficult but provide more stable basis for legislating radical reforms and preventing the reforms from being captured by particularistic interests.

The Hungarian case because of its majoritarian features neither confirms or solves the debate over the desirability of prime ministerial systems in new democracies. During the Antall government the problems were attributed to a great extent to centralized power -- the politicized appointments to the privatization ministry, the failures to engage in deliberative given and take decision-making with the opposition, and the instability that may arise because there are so few veto points in the political system. Hungary, however, by the end of the 1990s led all the other postcommunist countries with its total divestment, the relative lack of scandals, and the volume of foreign investment

The Czechoslovakia case is left to last since it in some respects makes the case for what David Stark calls "efficient executive model." Czechoslovakia's institutional design derived from historical precedent from the 1920s when Czechoslovakia was democratic republic. In addition, the institutional choices fit the inclusive and social democratic ethos of its first leader, Vaclav Havel. The leadership also wisely temporally adopted some majoritarian or

power-centralizing features including the exclusion of the republics from decision making and the use of unicameral practices in the Federal Assembly. Czechoslovakia illustrates that when initial institutional conditions are favorable, there is a greater likelihood of melding the difficult combination of power and efficiency.

For future research, there are several implications that are derived from this project. First, the research was conducted using positive theory to emphasize my interest in the objective conditions under which the allocation of constitutional resources in the executive may play a role in the privatization decision making. Therefore, the dissertation consciously has avoided taking a normative stance that would entail making prescriptive recommendations for countries endeavoring to transform their property regimes. By viewing political institutions as a set of rights, rules, and incentives, I have also tried to avoid claims that assert that one set of institutions such as majoritarian, consensual, or the variations of these types should be considered a model that can be transferred to new democracies seeking optimum solutions to privatization policy formation and implementation. Rather, it is necessary to investigate institutions as complex packages of constitutional rules. to understand the effects of different constitutional designs requires looking at the full configuration of institutions. For instance, in a two-player game of chess making, if one actor makes a move by looking at just one part of the game board, this would constitute a suboptimal strategy. Optimal decision making requires looking at the whole game board.

Further, the entire configurations of institutions contextualizes how a specific constitutional power may contribute positively or negatively to shaping executive and legislative interactions. Constitutional designers may opt for decree powers as an important instrument of policy change. In one institutional setting as in Hungary where conflict is minimized through the entire design, these decrees can play an important role. In another setting such as Russia, we

have learned that not the president's decree power embedded in the asymmetric set of institutions destabilized the constitutional order.

Second, decision making can be optimized by considering the game in iterated form. That is, privatization or any other type of policy making is a sequential process. The role of institutions as developed here derives from George Tsebelis's (1990) nested games. My emphasis on executive and legislative interactions or multicameral institutions highlight that the payoffs of the game may change at discrete intervals in the process. Finally, institutional change itself is an ongoing process so that most regimes in old and new democracies alike are a work in progress. Therefore, the nature of governance is contingent one.

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## **Appendix A - Dissertation Methodology**

In this section, I draw on several well-established methods and some new ones to examine the hypotheses regarding executive power and partisan conditions as alternative explanations of property regime transformations. For the examination of constitutional powers, I draw upon comparative constitutional analysis. Initially this literature has focused on presidents as the chief executive, then broadened its focus to include prime ministers. As more comprehensive formulas have been sought to situate the executive in the broader institutional setting, new ways of coding regimes have emerged to consider the constraining role of federalism, bicameralism, constitutional courts, and independent central banks. My methodological approach integrates both into single measure of executive power. For the examination of partisan conditions, I rely on standard methods for operationalizing my variables and constructing an index measure called the purpose variable.

The findings from both sets of variables were then to construct a comparative continuum of power and purpose to order the cases. I used Liphart's concepts of majoritarian and consensual democracies since both sets of variables implied a distribution of power but among different actors. Constitutions empower institutional actors, whereas electoral rules distribute power among partisan actors. The main difference concerns the actual ability for institutional and partisan actors to exercise their power. Institutional actors in my framework are constrained by multiple dimensions of constitutional rules. Partisan actors are constrained by the parliamentary setting in which they interact.

### **A. Constitutional Distribution of Powers Index**

In my constitutional powers argument, I analyze three dimensions of constitutional powers that appear important in positive theories of institutions. The three sets of variables that

comprise each dimension include the legislative powers, the non-legislative origin and survival, and state power. Collectively, the coding of these powers and their summary score are used to set up comparative benchmarks for whether a constitution provides for a powerful executive. The non-legislative powers and decentralized aspects of state power, however, also are used to define two sets of conditions that mediate the executive's actual ability to draw upon these powers. Thus my challenge was to identify methodologies that facilitated both tasks. In this respect, the methodological literature on presidential powers, executive powers, and multicameralism served as useful guide.

Since Shugart and Carey's influential work in *Presidents and Assemblies*, various methods have been proposed to measure the power of presidents. The postcommunist transitions also prompted close scrutiny of presidents by regime types. McGregor (1994) and the East European Constitutional Review used a checklist method derived from constitutional law. It consists of a list of powers that are scored 1 if a president has that power and 0 otherwise. The measurement can be made more sensitive by various weighting systems. For example, Hellman (1996) and Frye (1997, pp. 525-526) use the following weights: "If the president is directly elected, exclusive powers are counted as 1 and shared powers as .5. If the president is indirectly elected, exclusive powers are counted as .75 and shared powers as .375." Their list of 27 powers (see Table 1 in Appendix B) provides a possible range of 0 to 27 and an actual range of 4.75 to 18.5.

The advantage of the list method is that it is comprehensive. The Shugart and Carey system which will be discussed below consists of five legislative and five non-legislative powers. Thus, the Shugart and Carey method leaves out powers such as the ability of president to address the assembly, the right to propose legislation, court appointments, and the right to

refer legislation to judicial review prior to submitting it to the legislature. The disadvantage of the list method is that each power is weighted equally so that a relatively minor power such as the ability of the president to address parliament is weighted equally with crucial power of the president to dissolve parliament.

The other major method was developed by Shugart and Carey (1992). It provides a list of ten legislative and non-legislative presidential powers, each of which is measured based on a scale of 0 to 4 (see Table 2 in Appendix A). Legislative powers refer to presidential power in the legislative process that is provided for in the constitution. Non-legislative powers refer to constitutional limits placed on the separate origin and survival of the president and the assembly.

Shugart and Carey's (1992) method of measurement is linked closely to the literature on regime types; the powers were chosen premised on their importance in the theoretical literature on regime types. Therefore, Shugart and Carey use the presidential power scores in the non-legislative dimensions to classify the states by regime type. A regime's score on presidential cabinet authority is the sum of the scores on cabinet formation and cabinet dismissal. A regime's score on separate survival takes into consideration the scores on censure and dissolution. The advantage of the Shugart and Carey method concerns the analytical leverage that is gained from being able to use a single method to sort the cases on the basis of regime type, to focus on one of two clearly specified types of power, and to calculate a score of total presidential power.

Despite these advantages, there are also some disadvantages to Shugart and Carey's (1992) method. The major disadvantage is that by treating the president and the assembly as the only relevant actors, it does not capture well the dual authority structure of semi-presidentialism and the parliamentary regime types. The problem with focusing just on the president is that it



underestimates the role of prime ministers and thus levels of executive power in such systems. For instance, if executive power within the parliamentary system in Hungary is premised only the president, the assumption can be made that the executive is weak in relation to parliament. Analysis of the legislative and non-legislative powers of the Hungarian prime minister shows that the incumbent is one of the most powerful chief executives among the postcommunist countries.

Since I am interested in the powers of the chief executive whether president or prime minister, I use Hellman and Tucker's (2001) revision of the Shugart and Carey (1992) method which is sensitive to the dual executive structure (see table 3 in Appendix A). Unlike Shugart and Carey (1992), the analysis is divided into six non-legislative and five legislative powers. Like them, I also use a 0 to 4 to measure power in a particular dimension. A total of 24 points is possible on each set of powers. Although Hellman and Frye improve upon Shugart and Carey, the category of right of proposal in both indexes is defined as exclusive introduction of legislation or reserved policy areas. The emphasis is placed on the ability of assembly to amend executive proposals. High scores mean that the assembly does not have the right to amend so by deduction, the executive's right of proposal is unrestricted. As Shugart and Haggard note that "the ability of the president to set the agenda or constrain parliament's agenda is made stronger where there are restrictions on legislative amendments."<sup>1</sup>

However given their interest is in budgetary agenda-setting and gatekeeping, they redefine the index on exclusive initiation by stating whether the president has the restricted power to propose in the first place.<sup>2</sup> Although this represents an improvement, as stated it does

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<sup>1</sup> Matthew Shugart and Stephan Haggard, "Institutions and Public Policy in Presidential Systems," in Stephan Haggard and Matthew D. McCubbins eds *Presidents, Parliaments and Policy* (Cambridge: Cambridge University Press, 2001) p.77.

<sup>2</sup> Shugart and Haggard use an index scoring between 0 and 2. Two means that the executive defines the budgetary proposal with spending limits and the assembly has no means to respond. One means that the

not consider proposal powers regarding large economic reform packages of laws. In addition, it merges agenda setting a proactive power with amendment which is a reactive power.

In the agenda-setting literature, executive proposal is viewed as a powerful instrument for manipulating the legislative process and as a strategic means to lead from the front. Since agenda-setting theory in part plays an important role in my argument, I have separated exclusive proposal from amendment powers as a separate category. Although this risks double-counting, it more finely distinguishes between the instruments each branch had to control the policy outcome. Finally, my index incorporates the work of Matthew Reynolds (1999) and others who have constructed comprehensive indexes by coding the possible influence of federalism, bicameralism, and judicial review. Following Reynolds, I devised a 0-4 index for each dimension. Then, I totaled the sum and subtracted it from the executive power scores as representing a possible constraint on executive power. The findings from this analysis were used to construct a continuous measures of centralized to decentralized executive powers.

Using Reynolds's modified version of Liphart's categories, the centralized pole of executive power reflects pure majoritarian characteristics in which the legislative and non-legislative powers are concentrated in the executive, the state is unitary, parliament is unicameral, and there is no provision for a constitutional court. Highly decentralized consensual systems constitute the other pole. Powersharing is featured through the distribution of legislative and executive powers, as well as through federalism, strong bicameralism and constitutional court.

The variations fall in between. For instance, qualified majoritarian rule reflects variations in each of the three dimensions of powers. Executive power can be constrained by constitutional

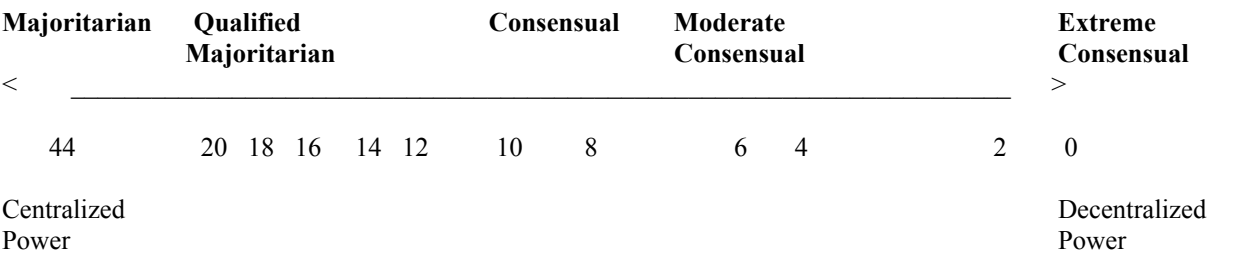
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executive can propose on non-budgetary bills without restrictions on amendment. Zero further defines which areas over which the president has control. In this instance the president has no provision or only applies to budgetary bills with no major restrictions on amendment. p. 88.

provisions mandating a normal no- confidence measure as means of censure rather than the more difficult constructive vote of no-confidence. The prime minister may be preeminent in power, but some powers such as a veto may be reserved for the president. While parliament most likely will remain bicameral and the state unitary, executive power may be restricted by a constitutional court.

In sum, the scores on the non-legislative executive powers can assume a total of 20 and the scores on the legislative powers can assume a total of 24. The top score of centralized power thus is 44. The more expected range at the top of the scale is 20 representing a highly majoritarian pattern of executive power. Executives in the range of 8 to 10 reflect moderately consensual institutions and below 8 power-sharing, decentralized institutions. The multicameral aspects of a constitution reflect a possible deduction of 12 from the total score. Thus. countries are arrayed as follows:

**Appendix A - Chart 1.**



**B. Unity of Purpose Index and Methodology**

The unity of purpose variable refers to the partisan characteristics of parliamentary settings. Drawing upon theories of electoral system, partisan characteristics, and coalition, the three dimensions of the purpose variable were chosen for their documented effects on the enactment of legislation in parliament. Party system characteristics differentiate parliamentary settings. As the executive and party leaders endeavor to construct legislative majorities, party

system characteristics affect the coalition potential and types of coalitions. Following William Riker's influential work on coalition formation, the three indicators include party system fragmentation, polarization, and intra-party stability. Below, I outline the measures chosen for each and the scheme for constructing the purpose index.

## 1. Fragmentation

Sartori differentiates systems according to the size of the party system. Party system fragmentation or fractionalization refers to the number and strength of the parties in parliament. For Sartori, it is not just the number of parties in a system, but whether the parties are relevant. Sartori suggests counting all parties in parliament that have coalition or blackmail potential. He regards other parties as not relevant for assessing size of system.

Counting parties consistently and reliably has not always been task. In assessing the size of a party system, it is relatively easy to count large parties who hold separate caucuses in parliament as one. As Lijphart notes "the most important problem in determining the number of parties in a party system is whether to count small parties, and if not, how large a party has to be in order to included in the count."<sup>3</sup> To measure party system fragmentation, I use the effective number of parties index developed by Markku Lasko and Rein Taagepera. This number =

$$\frac{1}{\sum_{i=1}^n p_i^2}$$

in which p<sub>i</sub> is the proportion of the i - th party.

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<sup>3</sup> Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Democracies* (New Haven and London: Yale University Press, 1984) p.116.

The advantage of the effective number of parties measure is that the index is sensitive to the number of parties in the system while taking size into account. For instance, in a two party system with two equal parties, the effective number of parties is two. If one party is considerably stronger than one another, with for instance a seat share of 70 percent and the other only has 30 percent, the effective number of parties is 1.7. In a multiparty system of five parties, when there is a dominant party, the effective number of parties is 3.5. Without a dominant party, the effective number increases to 4.5 close to the raw number of parties regardless of size. The data for estimating the effective number of parties comes from parliamentary records.

Using Sartori's criteria, party systems are considered moderately fragmented if they have above four to five effective parties and extremely fragment with six and above. Mainwaring and Scully studying the institutionalization of party systems in Latin America set an even more restrictive boundary. Systems with an  $N$  of 3.0 to 3.9 correspond to Sartori's limited pluralism. Party systems with an  $N$  of 4.0 or higher correspond to extreme pluralism. In the postcommunist countries, all the countries would fall into the category of extreme pluralism. Looking at the other characteristics, an  $N$  of 4 would not accurately described the level of fragmentation or the corresponding patterns of competition associated with the higher values. For instance Hungary's average EFN for most of the postcommunist era was 5.7. But, the party system also had a dominant party with a number of satellite parties around it. Thus, my analysis follows Sartori's criteria.

## **2. Polarization**

Polarization defined as ideological distance can be measured in several ways. The first uses a proxy dummy variable and is the simplest; the indicator is the average vote share of leftist parties and movements, or the average vote share of extremist parties that can be identified as

anti-system. The advantage of this indicator concerns its simplicity and the availability of election data. If extremist parties hold more than 16 percent of the vote, inferences can be drawn regarding policy distance and the stance liberal and centrist parties may take as they seek coalition partners. The possible winsets and or/dyads of coalition partners is reduced since the liberal parties usually stand at the polar positions in ideological orientation.

The disadvantage may come with the fluidity of the postcommunist partisan politics. In addition to defections from both sides, previous research using more refined data such as attitude surveys and roll-call votes has indicated that there is a wide variance of response to transition issues and possible coalitions depending on the nature of the issue. In addition, other than size as criteria it needs to be established if the party is truly anti-system by its record of activities inside and outside of parliament.

To overcome this disadvantage, other studies use the presence or absence of Sartori's indicators for polarization (polarized pluralism). Sartori offers eight characteristics of polarization. These include among others ideological distance, the presence of anti-system parties, and the direction of party competition (centripetal or centrifugal). The second method uses the party system as a whole as the framework for analysis. Polarized pluralism is a descriptor for party system type; it integrates both fragmentation and polarization. Fragmentation of the party system is viewed as the distribution of power. The levels of polarization indicates whether the distribution of power is polarized or pragmatic (segmented).

Comparative analysis begins by identifying the presence of anti-system parties (historical evidence attesting to their strategies of competition), their size and influence (were they relevant). Scaled as a dummy variables the score here would be between 0 and 3. If anti-system parties are present but not relevant, the analysis ends there. If extremist parties to the left and

right are relevant, the analysis then investigates the type of competition. If party competition emulates two- party patterns where governing parties and the opposition alternates in power, polarization of the party system is not likely. The structure of power is bipolar. The competition is unilateral, all opposing the party in power. If it becomes multipolar with extreme parties to the left and the right of a governing party in the center, then it becomes bilateral indicating polarization. In addition, if parties compete for the center votes (centripetal competition for the median voters) rather than to the ideological extremes (centrifugal competition) then polarization is unlikely. Scaled as dummy variables the score would be between 0 to 3. Sartori's other characteristics indicative of polarization include the presence of a strong center party that never relinquishes power, the principled rather than the pragmatic nature of the conflict over issues, the presence of irresponsible oppositions, and the politics of outbidding. Each of these characteristics would represent a total of 0 to 4). The values thus extend between 0 up to a possible. Scores in the range between 7-10 would indicate trends toward extreme polarized pluralism, 5 to 7 polarized pluralism, and below 5 moderate pluralism.

The advantage of Sartori's method is that it is time sensitive and comprehensive. The disadvantage is that empirically this method relies on detailed historical research. Methodologies mathematically estimating ideological distance to some extent reduces the need for detailed historical comparison while still capturing a number of Sartori's characteristics, and it can be used to estimate polarization over time.

Thus, the first task requires the availability of survey data to identify whether economic reform constitutes a salient cleavage in the postcommunist countries under study, then to identify other important cleavages such as liberalism (constitutional issues), religion, or nationalism. Among the issues involved in postcommunist economic conflict included the approach to radical

reform (the gradualist versus shock-therapy strategies), the future role of the state in the economy, and the type of capitalist development (mixed social democratic or strictly liberal market-based forms). Privatization issues paralleled these choices - how much state property should be divested, who should be the beneficiaries (citizens, corporate owners, foreigners versus domestic owners) and what methods should be used rapid mass privatization or gradualistic case by case privatization of state enterprises.

The second task also requires survey data to identify the parties positions on these issues and configure the positions of parties along a left-right spectrum on each issue dimension. Kitschelt (1998) focuses on policy distance; they used temperature attitudinal surveys of political party elites for Bulgaria, Czech Republic, Hungary, and Poland. The authors used a 20 point feeling thermometer to analyze the attitudes of parties to each other. To estimate their coalition potential, the authors used a variety of methods including factor analysis to assess the dimensionality of the parliament and regression to estimate the importance of his regime divide (anticommunism).

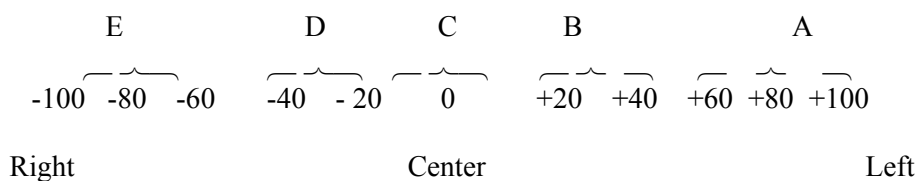
Another approach that I use is the cleavage conflict indicator to measure policy distance. The cleavage conflict indicator also requires the availability of survey data. In this respect, the research on Russia was facilitated by a large number of surveys conducted by the Russian Information Analytic Group that estimated the political ratings of deputies based on roll-call data covering the nine Congresses of People's Deputies between Spring 1990 and Fall 1993. The data covered the two key cleavage dimensions - economic reform and liberalism (constitutional issues). Factor analyses of the congresses were also available as a means to substantiate the importance of these dimensions and to indicate times when competition occurred along a single dimension or multiple dimensions.



Without using further quantitative procedures, the data showed precisely the positions the factions and party-like blocs took on economic reform and privatization. The percentages could be arrayed on scale from left to right on specific issue divides.<sup>4</sup> These positions correspond to ten integers on the left-right continuum. Adjustments in party positions from parliament to parliament were made when the data indicated that significant changes in party's policy orientation warranted such changes.

For each cleavage dimension, a 200 integer scale was used. The scale ranged from +100 to -100. Positions on the left-right continuum were attributed to parties based on the following criteria. If the cleavages related to political and economic reforms, the following meanings were attributed to the various categories of the model:

- Parties A -- These parties that stand at +100 to +60 position on the scale means that the party supports the system and seeks radical change.
- Parties B --Left-centrist parties range between +20 to +40; they support the transition and want moderate restructuring or economic reforms that are more gradualistic.
- Parties C -- These parties stand 0 to -1 (right) or +1 (right and represent absolute center. They are pro-system, but also want gradualistic change.
- Parties D. -- The right-centrists range between -20 to -40, they support the transition. These parties are moderate in their opposition to the liberals and refer back to some aspect of prior policies in the search for the desirable policy on cleavage x.
- Parties E. -- The conservative parties that are anti-system and do not support the transition.



<sup>4</sup> For each cleavage dimension, I used the Sobianin rating system of +100 and -100. Thus, +100 to +70 stood for strong proreform positions; these parties were prosystem and wanted the most radical change. Parties for extreme conservative positions refers to parties that are reactionary in opposition to leftist change to +100.

Having the political ratings of Russia's factions and blocs, however, facilitated taking one more step and using the general indicator of polarization or cleavage conflict (DCC) characterizing a parliamentary party system. The cleavage conflict indicator is designed to specify systemic patterns of concentrated or disbursed party systems. The closer parties are to one another, the more possibilities exist for creating majorities out of the possible party combinations. The measure that is used:

$$DCC_t = \frac{\sum_{i=1}^{n_c} \sqrt{V_{c_i}}}{N_c}$$

Where  $N_c$  = the number of salient cleavages along which parties are distributed in parliament,

$V_{c_i}$  = the variance of party positions on cleavage  $i$  in parliament where

$$V_c = \sum f_j \% (X_j - \overline{X})^2$$

Given that

$X_{jt}$  = political rating to party  $j$  on cleavage  $i$  in parliament  $t$

$$\overline{X} = \sum f_j \% \times X_{jt} \text{ s (each weighted by } f \% \text{)}$$

$F \%$  = the percentage of legislative seats associated with party  $j$  in parliament  $t$ .

Using the index of cleavage conflict, the lowest scores (15 to 25) represents a tight concentration of parties or a close proximity in terms of policy distance. Stable legislative coalitions are likely to form. Moderate scores indicate some dispersion, but parties are close enough to form temporary coalitions (25-35). High scores are associated with broad

disbursement of parties with distant policy positions (35 +). Lower indicators because they show the close dispersion among few parties also indicates the nature of the competition, whether it is unilateral. Wide dispersion among numerous parties yields the highest scores and the potential for polarized pluralism. Thus, one can infer from the measure the level of policy distance, but some of Sartori's characteristics used in his expanded definition.

### **3. Intra-Party Instability**

Following Lawrence C. Dodd (1976), party system stability denotes the extent of continuity over time in the identify and relative strength of parliamentary parties. A highly stable parliamentary party system exists when these features remain constant or continuous from parliament to parliament. A highly unstable party system exists when the identify and strength of parties in parliament varies over time. In the limiting case of instability, the parties in parliament (t) bear no resemblance to parliaments parties in the prior parliament (t-1). In the extreme case of stability, all parties in parliament t are identical to all parties in the prior parliament (t-1) with each party maintaining the precise proportional seat strength that it had in the prior parliament.

Unlike the advanced democracies, postcommunist democracies in the process of party formation had dramatic defections, party splits, and mergers. Some studies have used a volatility measure to capture this dynamic. The problem with the volatility measure is that it reflects changes in parliaments from election to election, but is not sensitive to changes in parliaments between elections. One approach is to simply look at differences in party or factional size to estimate shifts in membership and identify from parliament to parliament. Another is to consider whether the defections represented a one or two time event along the way to party system consolidation or whether the phenomena was persistent and involved large numbers of

parliamentarians. The data necessary for estimating stability comes from the records of parliamentary sessions or bulletins as well as the research institutes tracking these trends.

Another approach is to determine the continuity ( $C_t$ ) of the party system in parliament  $t$  with the party system in parliament  $t-1$ , the following measure is employed:

$$C_t = \frac{1}{2} \sum_{i=1}^m \left[ L_{i,t-1} - L_{i,t} \right]$$

Where  $L_{i,t-1}$  = number of legislators for party I at t-1  
number of legislators for parliament at t-1

$L_{i,t}$  = number of legislators for party I at t, and  
number of legislators in parliament t

$m$  = the number of parties in parliament

### **C. The Purpose Index and Continuum**

Having gathered data on the effective number of parties (fragmentation), polarization (DCC), and stability, I translated the scores into a ranking system based on the high to low values on each. For instance in a country with an EFN between two to three, I gave it a score of 1, with three to five parties, it was assigned a score of 2, and high than five, it was assigned a score of three. For Russia, to develop the polarization indicator, I used the values on the cleavage conflict indicator to conduct my intra-country cases.

## Appendix A Table 1: Purpose Index Scores

	<u>1</u>	<u>2</u>	<u>3</u>
Fragmentation Effective Number of parties	1 2.0- 3.0	2 3.0-5.9	3 5.9 +
Polarization DCC Coefficient Sartori Index	15-20	21-45	45+
Instability	None	Two phases Consolidation	Two or more
unconsolidated			
Continuity Coefficient	.00 - .24	.25 - .49	.49 - .70+

A total of 9 is possible on all indicators. Countries with the lowest scores 0 to 3 fall at the majoritarian end of the purpose scale; countries with a score of 3 to 5 fall at the midpoint of the hypothetical continuum( moderately consensual); countries with 5.5 and above reflect the most fragmented parliaments and are consonant with extreme consensual configurations.

For comparative purposes, I do not have comparable data for my other two countries, so using mathematical methods was not feasible. Instead I used several of Sartori's indicators, including, the presence of relevant anti-system parties, ideological distance, number of issue dimensions and salience of economic reform. I also checked for whether the competition was unilateral (bilateral) and centripetal (centrifugal). Each were score 0 or 1 as dummy variables. The total sum indicated the level of polarization. Scores between 0-2 were assigned a value of 1, 2-4, a value of 2, and 4-6, a value of three. This value constituted the second dimension of the 1 purpose index.

For intraparty stability, countries with persistent instability were scored a 3. Multiple instances of instability on the way to party system consolidation were scored a 2. In countries

with only one or two periods of defections and reformation of parties on the way to party system consolidation, I assigned a score of 1.

The total purpose score then permitted me to array the countries along the continuum with extremely low and high scores at the polar ends. High scores indicated high levels of fragmentation, polarization and instability. The middle ranges indicate some variability: a country can have moderate scores on each parameter or could have high levels of fragmentation and moderate or levels of polarization or instability. The low ranges indicate low levels of fragmentation, polarization, and instability. Using Sartori's terminology the high levels reflect party systems that fall into the category of polarized pluralism, whereas the middle to lower ranges represent moderate pluralism.

## Appendix B: Coding Materials

### Appendix B. Table 1: Shugart and Carey's Powers of Presidents

#### I. Legislative Powers

##### *Package Veto/Override*

- 4 Veto with no override
- 3 Veto with override requiring majority greater than 2/3 (of quorum)
- 2 Veto with override requiring 2/3
- 1 Veto with override requiring absolute majority of assembly or extraordinary majority less than 2/3
- 0 No veto; or veto requires only simple majority override

##### *Partial Veto/Override*

- 4 No override
- 3 Override by extraordinary majority
- 2 Override by absolute majority of whole membership
- 1 Override by simple majority of quorum
- 0 No partial veto

##### *Decree*

- 4 Reserved powers, no rescission
- 2 President has temporary decree authority with few restrictions
- 1 Authority to enact decrees limited
- 0 No decree powers, or only as delegated by assembly

##### *Exclusive Introduction of Legislation (reserved policy areas)*

- 4 No amendment by assembly
- 2 Restricted amendment by assembly
- 1 Unrestricted amendment by assembly
- 0 No exclusive powers

##### *Budgetary Powers*

- 4 President prepares budget; no amendment permitted
- 3 Assembly may reduce but not increase amount of budget items
- 2 President sets upper limit on total spending, within which assembly may amend
- 1 Assembly may increase expenditures only if it designates new revenues
- 0 Unrestricted authority of assembly to prepare or amend budget

##### *Proposal of Referenda*

- 4 Unrestricted
- 2 Restricted
- 0 No presidential authority to propose referenda

### *Non-legislative Powers*

#### *Cabinet Formation*

- 4 President names cabinet without need for confirmation or investiture
- 3 President names cabinet ministers subject to confirmation or investiture by assembly
- 1 President names premier, subject to investiture who then names other ministers
- 0 President cannot name ministers except upon recommendation of assembly

#### *Cabinet Dismissal*

- 4 President dismisses cabinet ministers at will
- 2 Restricted powers of dismissal
- 1 President may dismiss only upon acceptance by assembly of alternate minister or cabinet
- 0 Cabinet or ministers may be censured and removed by assembly

#### *Censure*

- 4 Assembly may not censure and remove cabinet or ministers
- 2 Assembly may censure, but president may respond by dissolving assembly
- 1 “Constructive” vote of no confidence (assembly majority must present alternative cabinet)
- 0 Unrestricted censure

#### *Dissolution of Assembly*

- 4 Unrestricted
- 3 Restricted by frequency or point within term
- 2 Requires new presidential election
- 1 Restricted only as response to censures
- 0 No provision

*Source:* Matthew S. Shugart and John C. Carey, *Presidents and Assemblies: Constitutional Design and Electoral Dynamics* (Cambridge: Cambridge University Press, 1992). p.150.



## **Appendix B. Table 2: Frye's List of Presidential Powers**

1. Dissolves parliament
2. Calls referendums
3. Calls elections
4. Appoints prime minister
5. Appoints ministers
6. Appoints constitutional court
7. Appoints supreme courts
8. Appoints judges
9. Appoints prosecutor general
10. Appoints central bank chief
11. Appoints security council
12. Appoints senior officers
13. Appoints senior commanders
14. Commander-in-chief of armed forces
15. Chairs national security council
16. Remands law for reconsideration
17. Sends law to constitutional court
18. Proposes legislation
19. Issues decrees in non emergencies
20. Proposes amendments to constitution
21. Calls special sessions of parliament
22. Special powers if parliament unable to meet
23. Assumes emergency powers at other times
24. Participates in parliamentary sessions
25. May address or send messages to parliament
26. May convene cabinet sessions
27. Participates in cabinet sessions

*Source:* Timothy Frye, "Coding Scheme for Presidential Powers in Post-communist Polities." Unpublished data set, 1998.

## Appendix B. Table 3: Hellman and Tucker Scale

### I. Legislative Powers

#### *Package Veto/Override*

- 4 Veto with override
- 3 Veto with override requiring 2/3 or greater than 2/3 (of quorum)
- 2 Veto requiring absolute majority of assembly or extraordinary majority less than 2/3
- 1 *Veto requires only simple majority to override*
- 0 No veto

#### *Partial Veto/Override (President's only)*

- 4 No override
- 3 Override by extraordinary majority
- 2 Override by absolute majority of quorum
- 0 No partial veto

#### *Decree*

- 4 Unlimited
- 3 Decree making powers that do not permit override of existing laws
- 2 Decree making power for only a limited amount of time or subject to ex-poste approval
- 1 Only regular executive decrees or negative decree making power (i.e. Can make decrees to overrule illegal local government action)
- 0 No decree making power, or only to do what is already an executive power (set an election date)

#### *Amendment Power -- Exclusive Introduction of Legislation*

- 4 No amendment by assembly
- 3 Restricted amendment by assembly
- 1 Unrestricted amendment by assembly
- 0 No exclusive powers

### II Non-Legislative Powers

#### *Cabinet Formation*

- 4 President / Prime Minister names cabinet without need for confirmation or investiture
- 3 President Appoints Prime Minister, and then both appoint ministers together
- 2 President / Prime Minister names cabinet ministers subject to confirmation or investiture
- 1 President names Prime Minister; subject to investiture, who then names other ministers
- 0 President / Prime Minister plays no role in dismissing government or ministers

### *Cabinet Dismissal*

- 4 President / Prime Minister dismisses cabinet ministers at will.
- 3 President can dismiss ministers at will but not Prime Minister
- 2 President / Prime Minister can dismiss ministers, but assembly restricts, or in case of President, Prime Minister restricts
- 1 Either President can dismiss government (or individual ministers) but must have replacement approved by assembly first) Or President / Prime Minister does not have the right to initiate the dismissal of a minister or government, but does have to approve the action once initiated by someone else (usually the assembly or Prime Minister)
- 0 President / Prime Minister plays no role in dismissing government or ministers

### *Censure*

- 4 Assembly may not censure or remove cabinet or ministers
- 3 Constructive vote of no-confidence (assembly majority must present alternative cabinet)
- 2 Assembly may censure, but President / Prime Minister may respond by dissolving assembly
- 1 Assembly may censure prime minister but not ministers
- 0 Unrestricted censure

### *Dissolution*

- 4 Unrestricted
- 3 Negative restrictions (President / Prime Minister is free to dissolve assembly unless certain conditions apply.
- 2 President can dissolve assembly, but it may lead to new Presidential elections as well (does not apply to prime ministers)
- 1 Positive restrictions (President / Prime Minister can dissolve assembly if certain conditions apply)
- 0 No Provisions

### *Impeachment (applies only to Presidents)*

- 4 Legislature cannot impeach
- 3 Legislature can impeach if president meets treason
- 2 Legislature can impeach if president high crimes and misdemeanor standard with 2/3 majority
- 0 Legislature can impeach if president breaks laws with supermajority required

## Appendix B. Table 4: Multicameral Institutions

### *Federalism*

- 4 Federalism in force with strong jurisdictional definition and agreements regulating center-periphery arrangements
- 3 Federalism in force with strong jurisdictional definition but weak agreements
- 2 Federalism in force but principle weakened by strong control from center
- 0 No Federalism

### *Bicameralism*

- 4 Strong bicameralism two houses incongruent in composition and symmetrical in terms of powers
- 3 Both chambers have formally equally powers, but upper house not directly elected
- 2 Weak bicameralism, lower house can easily veto upper house
- 0 No bicameralism

### *Constitutional Court*

- 4 Independent court, sole institution to possess judicial review, nominated by executive, approved by legislature
- 3 Court possesses judicial review but chief justice and justices are nominated and approved by either the executive or legislature.
- 1 Constitutional Court but without strong powers of judicial review
- 0 No constitutional court

**Appendix B. Table No. 5: Hellman and Tucker Index: The Russian Federation**  
**I. Legislative Powers = 9**

*Package Veto/Override = 1*

- 4 Veto with override
- 3 Veto with override requiring 2/3 or greater than 2/3 (of quorum)
- 2 Veto requiring absolute majority of assembly or extraordinary majority less than 2/3
- 1 *Veto requires only simple majority to override*
- 0 No veto

*Partial Veto/Override (President's only) = 0*

- 4 No override
- 3 Override by extraordinary majority
- 2 Override by absolute majority of quorum
- 0 No partial veto

*Legislative Decree Power = 4*

- 4 Unlimited
- 3 Decree making powers for a limited time
- 2 Decrees subject to ex-poste approval
- 1 Only negative decree making power (i.e. Can make decrees to overrule illegal local government action)
- 0 No decree making power, or only to do what is already an executive power (set an election date)

*Amendment Power = 0*

- 4 No amendment by assembly
- 3 Restricted amendment by assembly
- 1 Unrestricted amendment by assembly
- 0 No exclusive powers

*Agenda Control Exclusive Introduction of Legislation (Reserved Policy Areas) = 3*

- 4 Executive controls
- 3 Executive controls with legislature (Can attach confidence vote or other special provisions)
- 2 Legislature controls no time limits
- 0 No executive control

*Budgetary Powers = 0*

- 4 President / Prime Minister prepares budget; no amendment permitted
- 3 Assembly may reduce but not increase amount of budgetary items
- 2 President / Prime Minister sets upper limit on total spending, within which assembly may amend
- 1 Assembly may increase expenditures only if it designates new revenues
- 0 Unrestricted authority of assembly to prepare or amend budget

*Proposal of Referenda = 1*

- 4 Unrestricted and only president/prime minister has right to call referenda
- 2 Restricted or someone else can call referenda as well (most likely parliament)
- 1 President/Prime Minister can call referenda, but need Parliamentary approval
- 0 No authority to propose referenda

**II. Non-Legislative Powers = 7**

*Cabinet Formation = 3*

- 4 President / Prime Minister names cabinet without need for confirmation or investiture
- 3 President Appoints Prime Minister, and then both appoint ministers together
- 2 President / Prime Minister names cabinet ministers subject to confirmation or investiture
- 1 President names Prime Minister; subject to investiture, who then names other ministers
- 0 President / Prime Minister plays no role in dismissing government or ministers

*Cabinet Dismissal = 3*

- 4 President / Prime Minister dismisses cabinet ministers at will.
- 3 President can dismiss ministers at will but not Prime Minister
- 2 President / Prime Minister can dismiss ministers, but assembly restricts, or in case of President, Prime Minister restricts
- 1 Either President can dismiss government (or individual ministers) but must have replacement approved by assembly first) Or President / Prime Minister does not have the right to initiate the dismissal of a minister or government, but does have to approve the action once initiated by someone else (usually the assembly or Prime Minister)
- 0 President / Prime Minister plays no role in dismissing government or ministers

*Censure = 1*

- 4 Assembly may not censure or remove cabinet or ministers
- 3 Constructive vote of no-confidence (assembly majority must present alternative cabinet)
- 2 Assembly may censure, but President / Prime Minister may respond by dissolving assembly
- 1 Assembly may censure prime minister but not ministers
- 0 Unrestricted censure

*Dissolution = 0*

- 4 Unrestricted
- 3 Negative restrictions (President / Prime Minister is free to dissolve assembly unless certain conditions apply.
- 2 President can dissolve assembly, but it may lead to new Presidential elections as well (does not apply to prime ministers)
- 1 Positive restrictions (President / Prime Minister can dissolve assembly if certain conditions apply)
- 0 No Provisions

*Impeachment (applies only to Presidents) = 0*

- 4 Legislature cannot impeach
- 3 Legislature can impeach if president meets treason
- 2 Legislature can impeach if president high crimes and misdemeanor standard with 2/3 majority
- 0 Legislature can impeach if president breaks laws with supermajority required

### **III. Multicameral Institutions = 9 (12)**

*Federalism = 3*

- 4 Federalism in force with strong jurisdictional definition and agreements regulating center-periphery arrangements
- 3 Federalism in force with strong jurisdictional definition but weak agreements
- 2 Federalism in force but principle weakened by strong control from center
- 0 No Federalism

*Bicameralism = 2*

- 4 Strong bicameralism two houses incongruent in composition and symmetrical in terms of powers
- 3 Both chambers have formally equally powers, but upper house not directly elected
- 2 Weak bicameralism, lower house can easily veto upper house
- 0 No bicameralism

*Constitutional Court = 2*

- 4 Independent court, sole institution to possess judicial review, nominated by executive, approved by legislature
- 3 Court possesses judicial review but chief justice and justices are nominated and approved by either the executive or legislature.
- 1 Constitutional Court but without strong powers of judicial review
- 0 No constitutional court

## Appendix B. Table No. 6: Hellman and Tucker Index: Czechoslovakia

### Czechoslovakia Legislative Powers = 6

*Package Veto/Override = 0 (1990-1992) = 1 (1992 thereafter)*

- 4 Veto with override
- 3 Veto with override requiring 2/3 or greater than 2/3 (of quorum)
- 2 Veto requiring absolute majority of assembly or extraordinary majority less than 2/3
- 1 *Veto requires only simple majority to override*
- 0 No veto

*Partial Veto/Override (President's only) = 0*

- 4 No override
- 3 Override by extraordinary majority
- 2 Override by absolute majority of quorum
- 0 No partial veto

*Decree = 1*

- 4 Unlimited
- 3 Decree making powers that do not permit override of existing laws
- 2 Decree making power for only a limited amount of time or subject to ex-poste approval
- 1 Only regular executive decrees or negative decree making power (i.e. Can make decrees to overrule illegal local government action)
- 0 No decree making power, or only to do what is already an executive power (set an election date)

*Amendment Power -- Exclusive Introduction of Legislation (Reserved Policy Areas) = 1*

- 4 No amendment by assembly
- 3 Restricted amendment by assembly
- 1 Unrestricted amendment by assembly
- 0 No exclusive powers

*Agenda Control = 3*

- 4 Executive controls
- 3 Executive controls with legislature (confidence vote can be attached to laws)
- 2 Legislature controls no time limits
- 0 No executive control

*Budgetary Powers = 1*

- 4 President / Prime Minister prepares budget; no amendment permitted
- 3 Assembly may reduce but not increase amount of budgetary items
- 2 President / Prime Minister sets upper limit on total spending, within which assembly may amend or assembly may increase expenditures only if it designates new revenues
- 1 President/ Prime prepares budgets, legislature may amend and approve
- 0 Unrestricted authority of assembly to prepare or amend budget



*Proposal of Referenda = 0*

- 4 Unrestricted and only president/prime minister has right to call referenda
- 2 Restricted or someone else can call referenda as well (most likely parliament)
- 1 President/Prime Minister can call referenda, but need Parliamentary approval
- 0 No authority to propose referenda

## **II. Czechoslovakia Non-Legislative Powers = 9**

*Cabinet Formation = 3*

- 4 President / Prime Minister names cabinet without need for confirmation or investiture
- 3 President / Prime Minister names cabinet ministers subject to confirmation or investiture
- 2 President names Prime Minister; subject to investiture, who then names other ministers
- 1 President Appoints Prime Minister, and then both appoint ministers together
- 0 President / Prime Minister plays no role in dismissing government or ministers

*Cabinet Dismissal = 3*

- 4 President / Prime Minister dismisses cabinet ministers at will.
- 3 President can dismiss ministers at will but not Prime Minister  
or President can recommend to Prime Minister dismissal (formality) who then acts without restrictions
- 2 President / Prime Minister can dismiss ministers, but assembly restricts, or in case of President, Prime Minister restricts
- 1 Either President can dismiss government (or individual ministers) but must have replacement approved by assembly first) Or President / Prime Minister does not have the right to initiate the dismissal of a minister or government, but does have to approve the action once initiated by someone else (usually the assembly or Prime Minister)
- 0 President / Prime Minister plays no role in dismissing government or ministers

*Censure = 0*

- 4 Assembly may not censure or remove cabinet or ministers
- 3 *Constructive vote of no-confidence (assembly majority must present alternative cabinet)*
- 2 Assembly may censure, but President / Prime Minister may respond by dissolving assembly
- 1 Unrestricted censure of prime minister, but not cabinet
- 0 Unrestricted censure

*Dissolution = 1*

- 4 Unrestricted
- 3 Negative restrictions (President / Prime Minister is free to dissolve assembly unless certain conditions apply, i.e. within last six months)
- 2 President can dissolve assembly, but it may lead to new Presidential elections as well (does not apply to prime ministers)
- 1 Positive restrictions (President / Prime Minister can dissolve assembly if certain conditions apply)
- 0 No Provisions

*Impeachment (applies only to Presidents) = 3*

- 4 Legislature cannot impeach
- 3 Legislature can impeach president with 2/3 majority
- 2 Legislature can impeach if president breaks laws with 2/3 majority
- 1 Legislature can impeach if high crimes and misdemeanors restrictions apply with 2/3 majority (both houses).

### **III. Czechoslovakia Multicameral Institutions**

*Federalism = 2 (1990-1992) 0 = (1993 thereafter)*

- 4 Federalism in force with strong jurisdictional definition and agreements regulating center-periphery arrangements
- 3 Federalism in force with strong jurisdictional definition but weak agreements
- 2 Federalism in force but principle weakened by strong control from center
- 0 No Federalism

*Bicameralism = 4 (1990-1992) = 2 (1993 thereafter)*

- 4 Strong bicameralism two houses incongruent in composition and symmetrical in terms of powers
- 3 Both chambers have formally equally powers, but upper house not directly elected
- 2 Weak bicameralism, lower house can easily veto upper house
- 0 No bicameralism

*Constitutional Court = 4 not functioning until after 1992*

- 4 Independent court, sole institution to possess judicial review, nominated by executive, approved by legislature
- 3 Court possesses judicial review but chief justice and justices are nominated and approved by either the executive or legislature.
- 2 Constitutional with judicial review
- 1 Constitutional Court but without strong powers of judicial review
- 0 No constitutional court

## Appendix B. Table No. 7: Hellman and Tucker Index: Hungary

### I. Legislative Powers = 9

#### *Package Veto/Override = 0*

- 4 Veto with override
- 3 Veto with override requiring 2/3 or greater than 2/3 (of quorum)
- 2 Veto requiring absolute majority of assembly or extraordinary majority less than 2/3
- 1 *Veto requires only simple majority to override*
- 0 No veto

#### *Partial Veto/Override (President's only) = 0*

- 4 No override
- 3 Override by extraordinary majority
- 2 Override by absolute majority of quorum
- 0 No partial veto

#### *Legislative Decree Power = 4*

- 4 Unlimited
- 3 Decree making powers for a limited time
- 2 Decrees subject to ex-poste approval
- 1 Only negative decree making power (i.e. Can make decrees to overrule illegal local government action)
- 0 No decree making power, or only to do what is already an executive power (set an election date)

#### *Amendment Power = 2*

- 4 No amendment by assembly
- 3 Restricted amendment by assembly
- 1 Unrestricted amendment by assembly
- 0 No exclusive powers

#### *Agenda Control Exclusive Introduction of Legislation (Reserved Policy Areas) = 3*

- 4 Executive controls
- 3 Executive controls with legislature (Can attach confidence vote, sets time limits)
- 2 Legislature controls no time limits
- 0 No executive control

#### *Budgetary Powers = 0*

- 4 President / Prime Minister prepares budget; no amendment permitted
- 3 Assembly may reduce but not increase amount of budgetary items
- 2 President / Prime Minister sets upper limit on total spending, within which assembly may amend
- 1 Assembly may increase expenditures only if it designates new revenues
- 0 Unrestricted authority of assembly to prepare or amend budget

*Proposal of Referenda = 0*

- 4 Unrestricted and only president/prime minister has right to call referenda
- 2 Restricted or someone else can call referenda as well (most likely parliament)
- 1 President/Prime Minister can call referenda, but need Parliamentary approval
- 0 No authority to propose referenda

## **II. Non-Legislative Powers = 11**

*Cabinet Formation = 3*

- 4 President / Prime Minister names cabinet without need for confirmation or investiture
- 3 President Appoints Prime Minister, and then both appoint ministers together
- 2 President / Prime Minister names cabinet ministers subject to confirmation or investiture
- 1 President names Prime Minister; subject to investiture, who then names other ministers
- 0 President / Prime Minister plays no role in dismissing government or ministers

*Cabinet Dismissal = 4*

- 4 President / Prime Minister dismisses cabinet ministers at will.
- 3 President can dismiss ministers at will but not Prime Minister
- 2 President / Prime Minister can dismiss ministers, but assembly restricts, or in case of President, Prime Minister restricts
- 1 Either President can dismiss government (or individual ministers) but must have replacement approved by assembly first) Or President / Prime Minister does not have the right to initiate the dismissal of a minister or government, but does have to approve the action once initiated by someone else (usually the assembly or Prime Minister)
- 0 President / Prime Minister plays no role in dismissing government or ministers

*Censure = 3*

- 4 Assembly may not censure or remove cabinet or ministers
- 3 Constructive vote of no-confidence (assembly majority must present alternative cabinet)
- 2 Assembly may censure, but President / Prime Minister may respond by dissolving assembly
- 1 Assembly may censure prime minister but not ministers
- 0 Unrestricted censure

*Dissolution = 0*

- 4 Unrestricted
- 3 Negative restrictions (President / Prime Minister is free to dissolve assembly unless certain conditions apply.
- 2 President can dissolve assembly, but it may lead to new Presidential elections as well (does not apply to prime ministers)
- 1 Positive restrictions (President / Prime Minister can dissolve assembly if certain conditions apply)
- 0 No Provisions

*Impeachment (applies only to Presidents) = 2 but not applicable*

- 4 Legislature cannot impeach
- 3 Legislature can impeach if president meets treason
- 2 Legislature can impeach if president high crimes and misdemeanor standard with 2/3 majority
- 0 Legislature can impeach if president breaks laws with supermajority required

### **III. Hungary Multicameral Institutions**

*Federalism = 0*

- 4 Federalism in force with strong jurisdictional definition and agreements regulating center-periphery arrangements
- 3 Federalism in force with strong jurisdictional definition but weak agreements
- 2 Federalism in force but principle weakened by strong control from center
- 0 No Federalism

*Bicameralism = 0*

- 4 Strong bicameralism two houses incongruent in composition and symmetrical in terms of powers
- 3 Both chambers have formally equal powers, but upper house not directly elected
- 2 Weak bicameralism, lower house can easily veto upper house
- 0 No bicameralism

*Constitutional Court = 4*

- 4 Independent court, sole institution to possess judicial review, nominated by executive, approved by legislature
- 3 Court possesses judicial review but chief justice and justices are nominated and approved by either the executive or legislature.
- 2 Constitutional with judicial review
- 1 Constitutional Court but without strong powers of judicial review
- 0 No constitutional court

### **Appendix B. Table No. 8 Unity of Purpose Index**

*Fragmentation (0-4)*

- 4 EFN = 5.5 and above
- 3 EFN = 4.5-5.5
- 2 EFN = 3.5- 4.5
- 1 EFN = 2-3.5
- 0 EFN = 2

*Polarization (0-4)*

- 4 Policy Distance = 100 points distance between two polar parties; centrifugal competition
- 3 Policy Distance = 80 points
- 2 Policy Distance = more than half scale of all parties
- 1 Policy Distance = less than half scale of all parties
- 0 Policy Distance = less than one-quarter of all parties

*Instability (0-2.5)*

- 2.5 Persistent changes in parties' identity and membership
- 1.5 Three to five changes in either identity or membership
- 1 Two to three changes in parties' identity and membership toward party system consolidation
- .5 One to two changes in parties' identify and membership toward party system consolidation
- 0 No or low instability

**Appendix B. Table No. 9: Unity of Purpose Index -- Russian Federation**

*Fragmentation = 2*

- 4 EFN = 5.5 and above
- 3. EFN = 4.5-5.5
- 2 EFN = 3.5- 4.5
- 1 EFN = 2-3.5
- 0 EFN = 2

*Polarization = 3*

- 4 Policy Distance = 100 points distance between two polar parties; centrifugal competition
- 3 Policy Distance = 80 points
- 2 Policy Distance = more than half the distance scale of all parties
- 1 Policy Distance = less than half the distance scale of all parties
- 0 Policy Distance = less than one-quarter of all parties

*Instability = 1.5*

- 2.5 Persistent changes in parties' identity and membership
- 1.5 Three to five changes in either identity or membership
- 1 Two to three changes in parties' identity and membership toward party system consolidation
- .5 One to two changes in parties' identify and membership toward party system consolidation
- 0 No or low instability

## **Appendix B. Table No. 10: Unity of Purpose Index -- Czechoslovakia**

### *Fragmentation = 2*

- 4 EFN = 5.5 and above
- 3. EFN = 4.5-5.5
- 2 EFN = 3.5- 4.5
- 1 EFN = 2-3.5
- 0 EFN = 2

### *Polarization = 1*

- 4 Policy Distance = 100 points distance between two polar parties; centrifugal competition
- 3 Policy Distance = 80 points
- 2 Policy Distance = more than half scale of all parties
- 1 Policy Distance = less than half scale of all parties
- 0 Policy Distance = less than one-quarter of all parties

### *Instability = 1*

- 2.5 Persistent changes in parties' identity and membership
- 1.5 Three to five changes in either identity or membership
- 1 Two to three changes in parties' identity and membership toward party system consolidation
- .5 One to two changes in parties' identify and membership toward party system consolidation
- 0 No or low instability

## **Appendix B. Table No. 11: Unity of Purpose Index -- Hungary**

### *Fragmentation = 3*

- 4 EFN = 5.5 and above
- 3. EFN = 4.5-5.5
- 2 EFN = 3.5- 4.5
- 1 EFN = 2-3.5
- 0 EFN = 2

### *Polarization = 1*

- 4 Policy Distance = 100 points distance between two polar parties; centrifugal competition
- 3 Policy Distance = 80 points
- 2 Policy Distance = more than half scale of all parties
- 1 Policy Distance = less than half scale of all parties
- 0 Policy Distance = less than one-quarter of all parties

*Instability = .5*

- 2.5 Persistent changes in parties' identity and membership
- 1.5 Three to five changes in either identity or membership
- 1 Two to three changes in parties' identity and membership toward party system consolidation
- .5 One to two changes in parties' identify and membership toward party system consolidation
- 0 No or low instability



## **Vita**

The author's interest in political science began and was nurtured at Dominican University in San Rafael, California. Her research interests included the political-economy of the Pacific Rim countries, Soviet and Russian politics, leadership theory, international security, and comparative foreign policy. In the summer of 1992, she was provided the opportunity to participate in the development of a joint faculty research project between Dominican College and the Foreign Policy Association in Moscow. The project related to her current study regarding the relationship between democracy and economic reform. The project enabled her to conduct field research and interviews with former elites from the Gorabachev era, the leaders of a number of research institutes including IMEMO, and some new advisors to President Yeltsin and parliament.

During the author's doctoral studies at Louisiana State University, her research interests s expanded to include her current focus on new democracies, transition economies and comparative political institutions. Working with the various faculty permitted her to expand her research horizons by working on large-N comparative political economy studies as well as a project on terrorism and nation-building. In addition to offering research opportunities, the Department of Political Science has encouraged and nurtured her aspirations for an academic career with several opportunities for teaching in comparative political and international relations. In the next year, she will continue as an instructor teaching introductory classes in international politics, participating in academic conferences, and developing opportunities for publishing this research. In addition, she plans to return to Russia and Eastern Europe to further develop the research presented in her dissertation.